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March/April 2017

A new era of payments

It is all change in the payments world and there is promise that corporate treasurers will soon benefit from a faster, cheaper and more seamless payments experience. Treasury Today explores the key developments.

The Corporate View

Janko Hahn

Head of Treasury Operations

Autoneum

Technology

Treasury professionals are increasingly lacking the time and patience to deal with clunky and inefficient banking services and systems, and are calling for a better user experience. Are banks and technology vendors delivering?

Treasury Practice

Taking centre stage

Risk Management

Making cyber-security a business enabler

Fintech Focus

Taking over the bond market

Back to Basics

Corporate bonds


Voice of Corporate Treasury
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Global Study 2017
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Shaping up for the future

The global financial crisis and its fallout are often cited as having enabled treasury departments around the world to become strategic partners to the business. And whilst this may be true to a certain extent – the crisis certainly provided treasury with a platform to shine – the department could have easily fallen out of the spotlight once the crisis abated.

But this hasn't happened, treasury has gone from strength to strength, despite all the challenges. So yes, the crisis provided the platform, but it is the treasury profession's work since then that has enabled the function to achieve and maintain a strategic mandate.

It is this evolution that we discuss in this edition of the magazine, particularly in our Treasury Practice feature where we take a renewed look at the role of the treasury in 2017, analysing how the profession has developed and thrived. We also pose the question of what the role needs to further succeed and become a true partner to the CFO?

More innovative technology is unsurprisingly something that many treasury professionals are calling for. The good news is that there are huge advances in this space which we address in this issue. We also investigate the evolution of the payments industry and how multiple market players are working to provide you with a more cost effective, transparent and efficient payments infrastructure.

Elsewhere, we assess the increasing importance of the user experience offered by banks and treasury technology providers. Indeed, this could be set to become an ever-important area as products are more commoditised and may be the key differentiator for treasurers when selecting providers.

March/April's Corporate View, Janko Hahn, Head of Treasury Operations at Autoneum, sums up these two themes nicely as he talks about his career and how he has ensured that treasury remains at the forefront of the technology projects happening across the business. He also provides some interesting perspectives on why treasurers should strive to think globally, but act locally.

Share your voice

Treasury Today Group has launched its Voice of Corporate Treasury Global Study 2017, in association with Bank of America Merrill Lynch. This vitally important research study looks to plot the current corporate treasury landscape to understand the opportunities and challenges that are present and act as a guide for the future.

Please help us to help you by taking part in this study. For more information turn to page 19.

Audited member of BPA Worldwide

treasurytoday

treasurytoday.com
Volume 19/Issue 2
March/April 2017

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Annual Membership Rate £285

© Treasury Today ISSN 1466-4224

Treasury Today is published bi-monthly
(6 issues) by Treasury Today Limited
Courtyard Offices • Harnet Street
Sandwich • CT13 9ES • UK

Treasury Today USPS: (USPS 023-387) is published bi-monthly except September and October by Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

The 2015 US annual subscription price is $588.00. Airfreight and mailing in the USA by agent named Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Periodicals postage paid at Jamaica NY 11431.

US Postmaster: Send address changes to Treasury Today, Air Business Ltd, c/o Worldnet Shipping Inc., 156-15, 146th Avenue, 2nd Floor, Jamaica, NY 11434, USA.

Subscription records are maintained at Treasury Today Limited, Courtyard Offices, Harnet Street, Sandwich, CT13 9ES.

Air Business Ltd is acting as our mailing agent.

The paper used in the production of this magazine is sourced from protected forests and sustainable raw materials.

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Banking on user experience

Apple founder Steve Jobs had a simple philosophy towards product design: start with the customer experience and work back toward the technology – not the other way around. Are banks and treasury technology providers building products with a similar mindset?

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For global confectionery giant Mars, legacy technology meant that the company's FX dealing processes were at times inefficient and error-prone. Mars needed a solution that would enable the treasury team to deal FX more effectively.

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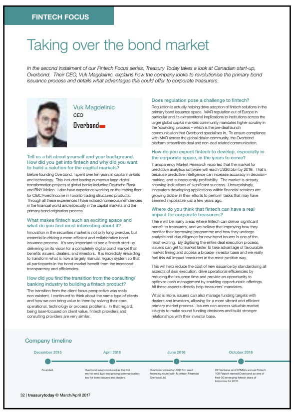

FINTECH FOCUS

Taking over the bond market

In the second instalment of our Fintech Focus series, Treasury Today takes a look at Canadian start-up, Overbond. Their CEO, Vuk Magdelinic, explains how the company looks to revolutionise the primary bond issuance process and details what advantages this could offer to corporate treasurers.

Vuk Magdelinic
CEO
Overbond

Tell us a bit about yourself and your background. How did you get into fintech and why did you want to build a solution for the capital markets?

Before founding Overbond, I spent over ten years in capital markets and technology. This included leading numerous large digital transformation projects at global banks including Deutsche Bank and BNY Mellon. I also have experience working on the trading floor for CIBC Fixed Income in Toronto trading structured products. Through all these experiences I have noticed numerous inefficiencies in the financial world and especially in the capital markets and the primary bond origination process.

What makes fintech such an exciting space and what do you find most interesting about it?

Innovation in the securities market is not only long overdue, but essential in driving a more efficient and collaborative bond issuance process. It's very important to see a fintech start-up delivering on its vision for a completely digital bond market that benefits issuers, dealers, and investors. It is incredibly rewarding to transform what is now a largely manual, legacy system so that all participants in the bond market benefit from the increased transparency and efficiencies.

How did you find the transition from the consulting/banking industry to building a fintech product?

The transition from the client focus perspective was really non-existent, I continued to think about the same type of clients and how we can bring value to them by solving their core operational, technology or process problems. In that regard, being laser-focused on client value, fintech providers and consulting providers are very similar.

Does regulation pose a challenge to fintech?

Regulation is actually helping drive adoption of fintech solutions in the primary bond issuance space. MAR regulation out of Europe in particular and its extraterritorial implications to institutions across the larger global capital markets community mandates higher scrutiny in the 'sounding' process – which is the pre-deal launch communication that Overbond specialises in. To ensure compliance with MAR across the global dealer community, the Overbond platform streamlines deal and non-deal related communication.

How do you expect fintech to develop, especially in the corporate space, in the years to come?

Transparency Market Research reported that the market for predictive analytics software will reach US$6.5bn by 2019. That's because predictive intelligence can increase accuracy in decision-making, and subsequently profitability. The market is already showing indications of significant success. Unsurprisingly, innovators developing applications within financial services are growing bolder in their efforts to perform tasks that may have seemed impossible just a few years ago.

Where do you think that fintech can have a real impact for corporate treasurers?

There will be many areas where fintech can deliver significant benefit to treasurers, and we believe that improving how they monitor their borrowing programme and how they undergo analysis and due diligence for new bond issuers is one of the most exciting. By digitising the entire deal execution process, issuers can get to market faster to take advantage of favourable market timing and access a broader investor base and we really feel this will impact treasurers in the most positive way.

This will help reduce the cost of new issuance by standardising all aspects of deal execution, drive operational efficiencies by reducing the issuance time and provide an opportunity to optimise cash management by enabling opportunistic offerings. All these aspects directly help treasurers' mandates.

What is more, issuers can also manage funding targets with dealers and investors, allowing for a more vibrant and efficient primary market process. Issuers can access valuable market insights to make sound funding decisions and build stronger relationships with their investor base.

Company timeline

December 2015	April 2016	June 2016	October 2016
Founded.	Overbond was introduced as the first end-to-end, two-way pricing communication tool for bond issuers and dealers.	Overbond closed a US$7.5m seed financing round with Morrison Financial Services Ltd.	H2 Ventures and KPMG's annual Fintech 100 Report named Overbond as one of their 50 emerging fintech stars of tomorrow for 2016.

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Taking over the bond market

In our new Fintech Focus feature, Treasury Today takes a look at Canadian start-up, Overbond. Their CEO, Vuk Magdelinic, explains how the company looks to revolutionise the primary bond issuance process and details what advantages this could offer to corporate treasurers.

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Are you ready for the new FX landscape?

THOMSON REUTERS

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Making cyber-security a business enabler

With more cyber-attacks being targeted at financial systems and finance employees, it is clear that treasurers should be taking the threats seriously. But what steps can treasurers take to protect their businesses – and can cyber-security be seen as a business enabler, rather than simply a necessity?

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Taking centre stage

As companies venture into new jurisdictions, global markets change and demands around risk management and transparency grow, the role of corporate treasury becomes increasingly complex. But what areas particularly are treasury teams stepping centre stage to drive value across organisations, and is treasury getting the support it needs in its evolving role?

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Navigating the new reality of international business

Globalisation has redefined how businesses operate, enabling them to reach more customers, improve efficiency and ultimately become more profitable. However, in recent years, operating across borders has become increasingly complex.

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Janko Hahn

Head of Treasury Operations

For Janko Hahn, Head of Treasury Operations at Autoneum the last few years have been about driving efficiency and standardisation across the company's treasury operation. Here he outlines what he has been working on and how his work is defined by a simple philosophy: 'think global but act local'.

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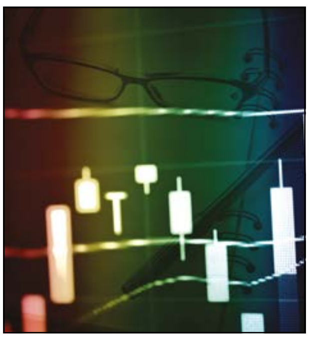
The factors to balance behind a corporate bond issue

A corporation seeking to raise funds from a bond issue needs to tailor the offering to suit their own requirements and ensure it is attractive enough to draw investors. Treasury Today goes back to basics and explores the process and best practices behind a corporate bond issuance.



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Mastering accounts receivables

Accounts receivables has traditionally proven to be a notoriously complex area to centralise and automate. However, the last couple of years have brought new opportunities for efficiency and automation in this area.

This page contains an edited version of a Treasury Insight piece written in the last month. The full version is available at treasurytoday.com. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at treasurytoday.com

Improved FX decision making

The surge in electronic FX dealing is enabling corporates to use transaction cost analysis to better define, achieve and demonstrate best execution. The old adage 'what isn't measured cannot be managed' rings true for most aspects of a corporate treasurers' work.

And in recent years, corporate treasurers, for various internal and external reasons, have placed a renewed interest in measuring, and thus managing, the effectiveness of their FX trading activity.

TCA: an introduction

Transaction cost analysis (TCA) is one of the most effective tools to do this. Offered by the large majority of dealer platforms and various other firms, TCA utilises a set of data and tools used to define, track and enable corporates to take the first steps toward establishing best practices for transacting in the currency market.

It does this by analysing the trade against a series of performance benchmarks. Most common is comparing the price achieved versus the market price, over the period of the order. The second common benchmark is the difference between the market price when the trade was made versus the average price actually achieved when completely fulfilling the order.

In the FX market, analysis such as this is particularly useful given the fragmented OTC market structure and range of liquidity sources and execution methods, says John Cooley, Head of FXall at Thomson Reuters.

It is important to note, however, that best execution in the FX market doesn't necessarily mean obtaining the best price for each trade. A long-term perspective needs to be applied to see the average pricing over a broader time horizon. Combined, short-term (deal to deal) and long-term (the average performance of trades over a three-month period) should enable treasurers to achieve a better understanding of their FX performance. "TCA can then help a market participant make better decisions about when, where and how to trade," says Cooley.

Corporate interest

Thomson Reuters' Cooley is seeing a growing interest in TCA, especially amongst those companies with large trading flows and multiple counterparties.

"The growth of electronic trading has certainly facilitated TCA, because not only is the trade data more accessible but perhaps more importantly is the fact that time stamps of electronic trades are precise, which means the analysis can be much more accurate," he says.

For corporate treasurers, the biggest benefit of doing this analysis is that it gives the ability to achieve better rates on high-value transactions by making better trading decisions.

And Cooley states that those decisions have become more complex. "For example, a treasury team may ask: what time of day is best for a particular currency? Which dealers should I ask to compete for a particular trade? What is a fair price given the size of the trade and current market conditions? Should I use an algorithm, and if so, which one? Effective TCA can help answer these questions."

Code of conduct

Now might be a better time than any to take a renewed look at TCA, as best execution is set to come under the spotlight with the introduction of the new global code of conduct for foreign exchange.

Published by The Bank for International Settlements (BIS) Foreign Exchange Working Group (FXWG), the code of conduct identifies global best practices and processes that are meant to inform corporate practice, and assist in developing and reviewing internal procedures.

"The FX Global Code represents a big step forward in defining best practices and it applies to institutional market participants globally," says Cooley.

"It covers, among other things, execution, risk management and compliance. TCA is very relevant to this because not only can it be part of an effective trading process, it also provides a tool for compliance and risk teams to identify potential off-market trades for review."

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- Best Cash Flow Forecasting Solution.*
- Best Liquidity Management/Short-Term Investing Solution.
- Best Working Capital Management/AP/AR Solution.
- First Class Relationship Management.
- Best Trade/Supply Chain Finance Solution.*
- Best Card Solution.
- Best Funding Solution.*
- Best Foreign Exchange Solution.
- Best Risk Management Solution.
- Best SWIFT Solution.
- Harnessing the Power of Technology.
- One to Watch.
- Best in Class Treasury Solution in the Middle East.
- Best in Class Treasury Solution in Africa.
- A Rising Star.
- Treasury Today Woman of the Year.

*New for 2017

The payment revolution(s)

From SEPA to FAST and from gpi to Ripple, innovation in the payments landscape is occurring faster than ever before. Whilst this disruption makes the future of payments somewhat uncertain, ultimately the real winners will be corporates who can look forward to a faster, cheaper and more seamless payments experience. Treasury Today explores some of the latest developments.

At the end of last year, the first Amazon Go grocery store in Seattle opened its doors. Described as a "just walk out" shopping experience, the store is revolutionary because it enables customers to simply take what they want off the shelves and walk out of the store without the need to queue at a checkout and make a payment.

Amazon has not started providing free groceries – instead, it has created what might be the world's first frictionless payments experience. This works by using various technologies that detect which products a customer has picked from the shelf. These are then registered to a digital cart (found on the Amazon Go app). Then, when the customer leaves the store, this is recognised in the app and the digital cart is turned into an invoice that triggers an instant payment across the Amazon Payments service.

It is a fascinating case study, and one that highlights not only how technology is changing the way everyday tasks are conducted, but also how seamless the payment experience can be.

Payments: in vogue

Amazon is by no means the only organisation to be focusing on payments. Indeed, the payments space has become saturated of late as an assortment of banks, credit card companies, fintechs, central banks and other industry players look to remove friction and make paying a more seamless experience.

This is hardly surprising: solving payment problems can be very rewarding. The Boston Consulting Group, for instance, predicts that payments revenues could grow to more than US$2trn a year by 2023. As a result, venture capital money has been ploughed into the industry.

The focus of these companies has so far been on the retail space and customer-facing businesses have been the first to feel the impact of these developments, especially the need to accommodate a plethora of new payment methods. But the rise of these alternative payment methods, whilst receiving a lot of the mainstream media coverage, is arguably just the tip of the iceberg when talking about the broader transformations happening in the space.

SEPA: looking back

Innovation in payments isn't new, despite the recent popularity and the excitement drummed up by fintech. As Mark Evans, Global Head of Payments Advisory, Global Liquidity and Cash Management at HSBC highlights: "SEPA remains one of the biggest development in the payments space of recent times."

Indeed, SEPA has been important for a whole host of reasons, but one of the most notable has been its role in establishing ISO 20022 XML as a payment messaging standard. "A common messaging infrastructure is important and the benefits of creating this have been highlighted by SEPA," says Evans. "And as more and more domestic payment systems are built using similar XML standards, banks are able to standardise payments processing and focus on delivering more innovative experience to our clients."

Aside from setting standards, SEPA helped get the banks (and corporates) thinking differently about payments. As Evans explains: "The execution of payments is now heavily commoditised and what corporates are really interested in is what value banks can add before and after payment execution." Banks have been working on 'additional optional services', which can be developed in order to add value to clients' payments processes.

Indeed, Evans notes that the success of SEPA has created challenges for corporates operating elsewhere in the world. "We often run into challenges, where our clients expect SEPA-like capabilities and are disappointed to find they are unable to routinely replicate this operating model elsewhere," he says.

The evolution of SEPA doesn't stop here, however, and Evans highlights how banks are increasing their focus on overlay services. He notes that HSBC is working to help its corporate clients further improve their payments efficiency, for instance. "We are working to develop solutions that help clients more efficiently manage accounts associated with payment execution, and remove the operational burden associated with so called, payments Master Data," Evans explains.

Life in the fast lane

Away from SEPA, a more recent trend in the payments space has been the proliferation of faster payment systems. The UK was a first-mover in this instance when it launched its Faster Payments scheme in May 2008. Since then, over 30 similar systems have been developed or are under development around the world.

Faster payment schemes enable customers to make electronic payments almost instantaneously, seven days a week and 24 hours a day. Payments are typically made via a phone or internet-enabled device and involve the transfer of money between accounts – to pay other people, pay bills or make regular standing order payments.

Interestingly, while SEPA has set the standard for pan-regional payments, it is Asia Pacific that is arguably setting the standard for real-time domestic payment systems. Some notable solutions in the region include Fast and Secure Transfers (FAST) a real-time payments initiative from the Monetary Authority of Singapore, built using ISO 20022; India's Immediate Payment Service (IMPS) and UPI; and the soon to launch New Payments Platform (NPP) in Australia.

These payment systems are the building blocks on which further payments innovation can be built – many of which the banks are just beginning to explore. Yet, it is important to note that whilst these are exciting developments, the impact of these systems in the corporate space remains limited. Many schemes, for instance, enforce maximum value limits (S$50,000 in Singapore, for example), reducing their usefulness to corporates making high-value payments.

It is also debatable whether corporates need the ability to make real-time payments at all. After all, in the B2B space companies typically have standard cycles for payments based on overnight settlement. Perhaps one of the most transformational effects of Faster payment schemes is their support for "Request for Payment" services using mobile phone numbers, emails or other aliass. Ironically, it could be that Faster payments make their biggest impact for corporates on the receivable side of their business.

SWIFT's gpi initiative

Although domestic faster payment systems may only have a limited impact on corporate operations, the developments occurring in the cross-border space – where often the real challenges sit – may have a more immediate effect.

Indeed, the increase in the volume of cross-border payments, driven by globalisation, and the digitisation of commerce has only increased the volume of cross-border payments for corporates. When sending payments cross-border, corporates often struggle with transparency over the payments in terms of fees and credit confirmation. There is also limited remittance data that can be sent along with the payment, creating issues when it comes to reconciliation.

It is these cross-border challenges that SWIFT's global payments innovation (gpi) initiative is looking to solve for treasurers. Launched in early 2015, the gpi initiative is intended to improve corporate treasurers' experiences when making cross-border payments by increasing speed, transparency and end-to-end tracking of transactions. The initiative aims to do this by establishing a service agreement for banks, which will then be responsible for turning this into a value proposition for their clients.

Despite the widespread focus on new technology, SWIFT has bucked the trend and designed the gpi initiative to work without significant changes to existing infrastructure. "This was a very deliberate action," says Wim Raymaekers, Global Head of Banking Market at SWIFT. "We want to bring the benefits of gpi to treasurers as soon as possible and the existing technological infrastructure enables this." To that point, SWIFT and the banks – perhaps rather uncharacteristically – have been rapid in pushing forward with gpi, which went live in February.

That isn't to say that SWIFT hasn't been innovating. "Providing same day value and transparency over fees is done by enforcing the new standards," explains Raymaekers. "But we have introduced some new tools to enable the end-to-end payments tracking function and built a data layer that flows with the payment, enabling the transaction of rich remittance data. The aim of this technology is to enable the 'DHL of payments' – something that corporates have been requesting for some time."

With over 90 banks already on board, gpi is an initiative that SWIFT is promising will further improve as time goes on. "We have already helped solve a number of challenges that corporates face when making cross-border payments," says Raymaekers. "And we will continue to develop gpi utilising new technology as and when it comes available. Decoupling the business rules from the technology has enabled this and will mean that gpi will be able to stand the test of time."

To provide just one example, Raymaekers says that SWIFT has launched a proof of concept (PoC) to explore whether distributed ledger technology (DLT) can be used by banks to improve the reconciliation of their nostro databases in real time, optimising their global liquidity.

Breaking the rules

There are those, however, that believe the existing payments ecosystem needs to be renewed for any true progress to be made. Ripple is probably the most vocal company in this space. Its vision is to create something that it calls the 'Internet of Value'. As Daniel Aranda, Managing Director of Ripple Europe, explains: "We believe that value can be moved around the world the same way as data, seamlessly and instantly."

For those at Ripple, the issue with the current payments ecosystem is that it relies on central master ledgers to track who owns what and who has paid who. "These ledgers sit within banks, broker-dealers, central banks, clearing systems – and when payments need to go cross-border, this system starts to break down because these ledgers don't easily interoperate," says Aranda. "As a result, international payments take from three to five days to settle and have an error rate of 5%. This means that making payments between countries is slow, unreliable and expensive."

The result is a payments infrastructure that Aranda says is "woefully inadequate to meet the corporate treasurer's needs – in particular, that of managing liquidity and foreign exchange risk and having real-time data to hand."

So how does Ripple and its 'Internet of Value' seek to change this? Its technology is built around an open neutral protocol called the Interledger Protocol (ILP), which standardises the process of settling transactions across different ledgers and networks. This offers cryptographically secure end-to-end payments flow with transaction immutability that allows companies on different networks to transact directly.

Contrary to some beliefs, Ripple is not looking to throw the baby out with the bathwater. Its technology is designed to fit within a bank's existing infrastructure and complies with risk, privacy and compliance requirements.

"With the ability to transact directly, instantly and with certainty of settlement through Ripple's distributed financial technology, corporate treasurers have much to gain," says Aranda. This includes the ability to direct funds immediately as and when needed to support operations globally as well as support all currencies from centralised accounts. Treasurers will also be able to reduce counterparty risk and credit costs by having the option to request for immediate payments from customers and improve cash management and reduce working capital and liquidity costs. Finally, reconciliation errors can be minimalised through detailed invoice data.

> "A common infrastructure is important and the benefits of creating this have been highlighted by SEPA. And as more and more domestic payment systems are built using XML standards, we as banks are able to standardise our payments offering in order to deliver a more consistent experience to our clients.
>
> Mark Evans, Global Head of Payments Advisory, Global Liquidity and Cash Management, HSBC

"2016 was the year that banks began to accept distributed ledger technology to be used for commercial payment solutions, particularly in cross-border payments," concludes Aranda. "2017 could be the year that financial institutions increase the adoption of digital assets like Ripple's XRP to fund their payments in real time and, in the process, cut down their dependency on nostro accounts."

Moving in the right direction

With so much innovation under way, and more still to come, it is extremely difficult to predict exactly what the payments ecosystem will look like in ten years' time. Indeed, technology is moving so fast that ten years ago, the term 'distributed ledger' did not exist in conversations around payments.

SEPA and Faster Payments, as government-led initiatives, are clearly here to stay, and they should provide the underlying architecture for payments innovation to truly flourish. Exactly what rails cross-border payments will travel on is less certain.

For corporate treasurers, the new payments landscape might seem overly complex and uncertain. There are a lot of moving parts and a lot of players in the game. Consolidation is clearly needed: a situation with multiple systems at play is not the most efficient scenario.

But with a 2016 Saxo Bank study indicating that 63% of finance professionals were not satisfied with how long international transfers take to arrive in the recipient's account, the good news is that all these developments aim to streamline the payments space, making it faster and cheaper for corporates to transact both domestically and cross-border.

Any diligent treasury professional will, therefore, be keeping well abreast of these changes and should be engaging with their banking partners closely. Treasurers should also talk to other industry players such as SWIFT and Ripple to see what is out there and the benefits these new systems can bring.

Alex Haigh

Regional Currency Manager EMEA

MARS incorporated

Headquartered in the US, Mars Incorporated is one of the world's largest manufacturers of confectionery, pet food and other food products. With a workforce of over 80,000 people in 78 countries around the world the company achieved annual sales of US$33bn in 2015.

For global confectionery giant Mars, legacy technology meant that the company's FX dealing processes were at times inefficient and error-prone. Mars needed a solution that would enable the treasury team to deal FX more effectively, freeing up resources to focus on more value-adding activities.

Problem…

Given the company's global reach, the effective management of FX is a crucial tenet of the overall risk management function at Mars. However, the company's legacy technology infrastructure was causing the treasury team a considerable headache.

Challenges were primarily caused by the outdated treasury management system (TMS), which was prone to crashing – especially at critical times such as during the treasury's routine trading window. The system also didn't allow Mars to trade multiple value dates simultaneously, which exacerbated the workload for the currency team.

To complicate matters further, the treasury still relied on spreadsheets for around a quarter of its trades. "Unsurprisingly, errors were common," says Alex Haigh, Regional Currency Manager EMEA at Mars Chocolate. "We had to spend a significant amount of time finding the errors in the spreadsheet and correcting these. Even when everything worked, there was limited straight through processing. A significant amount of time was spent manually managing each trade."

…Solved

It was clear that the situation needed to be addressed. The treasury team had already been using Thomson Reuters FXall for deal execution for some time, but much of the functionality remained untapped. The implementation of a new TMS provided an opportunity to leverage the functionality offered by the system more effectively by closely integrating FXall into the new TMS.

"We talked to our Thomson Reuters relationship manager about our new TMS installation and what we wanted to achieve. They then worked seamlessly with the TMS provider, explaining how the FX account structure at Mars worked, which then enabled FXall to be bolted onto the system seamlessly and to our exact specifications," explains Haigh. "We then vigorously tested FXall within the new TMS architecture using different currency pairs, deal volumes and multiple value dates and found that very few issues occurred. After this we were able to go live – it was incredibly straightforward and seamless."

The integration of Thomson Reuters FXall into the new TMS has transformed FX dealing for Mars. "We now run the numbers in the TMS and once we accept the hedge recommendation we are able to export these instructions into FXall," Haigh explains. "Once the deal is executed in the module, confirmation will be received in less than one minute. This will then be sent back to the TMS and the system will be updated automatically, allowing us to instantly run new reports and share these with other departments in the company."

Enabling the full functionality of Thomson Reuters FXall by integrating it into the company's new TMS has delivered a plethora of benefits for Mars. Haigh claims that around 12 working days a year have been saved through the efficiency provided by the new set-up and the ability to trade multiple value dates in one transaction. "What is more, we are also saving a significant amount of time by no longer having to spend hours finding errors in spreadsheets – these have been completely eradicated from the process."

Mars has also posted impressive cost savings. "FXall always enabled us to get best price execution," says Haigh. "But now we have unleashed its full functionality, we are able to achieve a netting benefit as well when trading multiple value dates. We are saving tens of thousands of dollars a year on spreads as a result."

More benefits may follow. "Now that we are using FXall to its fullest, it is providing us with a richness of data that we never had before, enabling us to leverage numerous analytical tools and ensure we are operating best-in-class," adds Haigh. "We are now able to use these insights to build better FX hedging strategies and look at ways to add more value to the business."

Banking on user experience

With more to do and with fewer resources available, treasury professionals increasingly lack the time and patience to deal with clunky and inefficient banking services and systems, and are calling for a better user experience. But are the banks listening and what comprises a 'good' user experience? Treasury Today finds out.

Apple founder Steve Jobs had a simple philosophy towards product design: start with the customer experience and work back toward the technology – not the other way around. It is a philosophy that continues to influence every product that the company produces and is arguably one of the biggest factors in Apple's success.

Although simple, Jobs' philosophy was pioneering. Until then, companies had typically designed products they thought people needed with very little customer input until the very late stages of production. Jobs' thinking not only brought success but also inspired a whole new generation of innovators who have looked to follow Jobs' example, designing products and solutions that provide an excellent user experience.

In perspective: user experience

User experience is a very broad concept and definitions will vary depending on who you speak to. The Nielsen Norman Group provides a succinct summary: "User experience encompasses all aspects of the end user's interaction with the company, its services, and its products."

Alberts Pumpurs, Partner at the UX Design Agency, expands on this definition, saying that companies who provide a good user experience are those that enable "the customer to meet its objectives in a straightforward and efficient manner". To provide an example, Uber has revolutionised the taxi business, not only by allowing anyone to be a driver but by enabling customers to easily order a taxi, track its progress and pay for it automatically at the end of the ride. The user experience provided by Uber is better than calling a taxi office and waiting for the car without any knowledge about its status.

Companies that provide a great user experience will typically also offer an intuitive user interface – the platform with which the customer interacts. Uber's app is intuitive and clearly provides its users with all the information they require.

User experience is not a modern concept. Pumpurs explains that companies have "unconsciously" always been looking to improve user experience, typically through the development of better user interfaces. The science behind it, however, only began to take shape in the 1950s with the publication of American industrial designer, Henry Dreyfuss' book, Designing for People. In his book, Dreyfuss wrote: "When the point of contact between the product and the people becomes a point of friction, then the industrial designer has failed." But only in the past 20 years have these concepts attained a new impetus.

Indeed, for Pumpurs, the need for all businesses to focus on user experience has only become more important with digital start-ups embracing these concepts and challenging 'traditional' companies. "To make themselves stand out in a well-entrenched and highly competitive market they have to make their services useful, intuitive and fast," he says.

This is especially true in finance, where the proliferation of fintech has saturated an already well-populated market. In the payments space (which we look at in more detail on page 6), for instance, well-known fintechs such as PayPal and Alipay now offer their users the ability to make payments quickly and easily. With Alipay and PayPal's registered users numbering 400m and 197m respectively, these services are significantly disintermediating financial incumbents. In response, banks have invested heavily in their own user experience in an effort to retain and deepen their customer relationships – especially in the retail space.

The corporate view

But what about in the corporate space? Are banks and treasury technology vendors keeping up with the pace of change? The corporate treasurers consulted by Treasury Today suggest that there has been some improvement, but that there is also still some way to go.

Damian Glendinning, Treasurer of Lenovo, called out the banking community on the user experience it offers when speaking at a panel moderated by Treasury Today at Sibos in 2015. Glendinning pointed out that he used a better online banking portal as a consumer than he did as the corporate treasurer of a multinational corporation.

This point was recently seconded by Cale Bennett, Group Treasurer at Tatts. "In Australia, the user experience offered by the banks in the consumer space is fantastic," he says. "But very little of this development has flowed through to the institutional space yet."

In the United States, Guillermo Gualino, Vice President and Treasurer at Agilent Technologies, has similar comments. "In general, corporate banking systems are not easy to use," he says. "I believe this is because each bank wants to be ahead of the competition so they will over-feature their online portals in an effort to stay ahead, with little thought about the user experience. As a result, they become more complicated and thus less attractive to use, despite the new functionality."

Referencing Microsoft founder Bill Gates, who said in 1994 that in the future people will need banking and not banks, Gualino says that banking portals are simply a tool used by treasurers to do something. "We want to get in, make the trade and then get out again," he says. "It should be simple and efficient – and if it looks nice as well then that is a bonus."

Overcoming complexity

There are a variety of reasons why the user experience provided by commercial banks is lagging behind the retail space. As Susan Feinberg, Senior Analyst at Celent, who recently conducted a study in this area, explains: "Commercial banking is far more complex with much more functionality that needs to be delivered. Commercial banks have therefore traditionally been much more focused on functionality rather than user experience."

As previously mentioned, the rise of fintech has highlighted how banks could provide a better user experience. But Morgan McKenney, Head of Core Cash Management at Citi, says that that size of balances and the value of transactions in banking for corporates mean that security is paramount. "Although treasurers are calling for a better experience when working with banks, they are still primarily concerned with the security of the firm's money and information," she says. "To offer both security and world-class user experiences each requires a lot of time and resources, which may mean rebalancing priorities sometimes."

Banks are also hamstrung by myriad legacy technology, further impeding their ability to improve user experience rapidly. "Commercial banks offer a vast number of products," says James Haycock, Managing Director at Adaptive Lab. "Over time as new products have been introduced or existing ones have evolved the systems have become increasingly complex. Just keeping up with compliance related changes consumes the vast proportion of budgets and that's before any investments in innovation."

It is not just legacy technology that Haycock sees impeding the banks. "While banks are experiencing greater cost pressure, most remain profitable so there's not a great incentive to change. This means many are doing things the way they always have. They're very product centric rather than customer centric for one. I think this surfaces itself in how they go about improving or designing products with design still often seen as an activity taking place later in the process rather than from the beginning where it can have the greatest impact."

Haycock believes the operating model of banks further impedes innovation. "Banks operate in silos: which is evident when you call them or in the digital experience you have," he says. "Digital is still seen by many as a channel when actually it's a lot more than that. Until banks more seriously reconsider their approach to the design, delivery and improvement of experiences this problem will continue to be exacerbated."

Innovation in action

Indeed, it is realigning the bank's different business lines and removing silos behind the scenes that is perhaps key in their efforts to offer a greater experience to their clients. As Citi's McKenney details: "Providing a great experience to our clients goes way beyond developing a digital platform that is easy for treasurers to use. It is also about looking at the end-to-end process flow within the bank and how efficient this is. You may have a great looking internet portal, but our clients ultimately are impacted by a bank's full end-to-end processes.

McKenney explains that in essence every step the bank takes is designed to improve the user experience it offers its clients. Such steps include removing paper from processes, providing single access to applications and simply making the answers

Spotlight on TMSs

Banking portals are, of course, not the only treasury technology used by corporate treasury professionals. For many, a treasury management system (TMS) is the dominant tool. Here Bob Stark, VP of Strategy, Kyriba talks about the user experience in the TMS space.

"Corporate clients want easy-to-use software that doesn't require a user manual to figure it out," says Stark. In his view, this is important for two reasons. "Firstly, a unique characteristic of TMSs, compared to other types of software applications, is that the core TMS users are using the software the entire day."

Stark also notes that TMSs also have a large number of users that log in infrequently – perhaps once or twice a month. "This presents a different set of challenges," he says. "The system not only needs to be easy to navigate, but it also needs to be intuitive and tailored to their exact needs so they're not fighting to remember how things work given their infrequent usage."

Fit for purpose?

Unfortunately, TMS providers haven't always been the best at providing a good experience to their clients. "There are too many poorly designed treasury management systems in the market that have passed into obsolescence," says Stark. "The problem in this space is that some vendors are unable or unwilling to evolve their treasury software."

The consolidation of the market is noted as a key reason for this. "We see this most often with treasury systems that have been acquired, or with those vendors that are looking for an exit strategy," adds Stark.

Client demands

In conversations with its clients, Kyriba has found that offering personalisation is crucial to delivering a good experience, enabling treasurers to organise their treasury workflow. "Our system allows users to build maps guiding what they want to do in the system and how to navigate to those screens, reports, and processes with a single touchpoint," notes Stark. "This is important because of the balance needed to support core users and less frequent users of the system."

to frequently asked questions available online – saving clients the time and effort involved in contacting a call centre. "These may sound like small changes and fairly straightforward, but the bank has had to take a conscious effort to take these steps," she says.

Citi is, of course, also focusing on the front end. "If we do all this work in the back end and then offer our clients a clunky and complicated online and mobile banking portal then we will still not provide a good experience," says McKenney. The bank has therefore employed user experience professionals in its innovation labs to work with clients for their feedback to design intuitive online experiences.

"When we redesigned our online portal, we brought in clients and used eye tracking software to understand how they interacted with our products in great detail," she says. "This insight has enabled us to design our products to be as intuitive as possible for our clients."

Customisation is also important and Mckenney notes how the bank has built its online portals using widgets (micro apps that can be moved around the screen) to allow individual users to get the information they need quickly. "In doing this, accessing an account balance that might have taken ten clicks is now available straight away on the homepage."

An important future

Citi is just one of many banks looking at this area. As development continues, user experience may become a key differentiator for corporates – especially as banking products become more commoditised. "We are already seeing retail customers switch banks to those that offer a superior user experience and why should a treasurer have an experience sub-par to what they're used to in every other aspect of their job," says Adaptive Lab's Haycock. "Customer experience presents a great opportunity to differentiate, give the client more of their time back but ultimately help maintain and deepen the relationship that a bank has with their corporate clients."

It is a point agreed upon by the UX Design Agency's Pumpurs: "Focusing on user experience shows that the bank is thinking about its customers and will foster loyalty," he says. "Transaction banking is ultimately a relationship business and banking portals have, for the most part, replaced people as the main point of contact between client and bank. It is vital then that this enables treasurers to do what they need to do quickly and easily and provides them with all the information they need."

Celent's Feinberg is keen to point out that it will be more than simply user experience that informs corporate decision making when selecting banking partners. "The bank still needs to provide a high-quality service behind these channels and offer products and services that save the corporate time and money," she says. "Availability of credit and the relationship manager will also remain important factors."

That being said, user experience will continue to increase in importance for corporate treasurers as the user experience provided by companies outside of the treasury raises their expectations. Ultimately, a bank providing a good user experience will enable treasurers to perform better.
As Agilent's Gualino concludes: "User experience is a big part of our decision-making because if the team is able to perform the tasks required in these portals quickly and efficiently, then they are able to spend more time on value-adding, strategic activities."

Crossing borders: navigating the new reality of international business

The seemingly inexorable march of globalisation has redefined how businesses operate, enabling them to reach more customers, improve efficiency and ultimately become more profitable. However, in an increasingly complex world, the benefits that have been delivered by globalisation can no longer be taken for granted.

Mark Evans
Managing Director, Transaction Banking

Michael Lim
Head of Trade and Supply Chain

In his book, The World Is Flat: A Brief History of the Twenty-First Century, American author Thomas Friedman details the development of globalisation, beginning in 1492 when Christopher Columbus set sail, opening up trade between the new and old worlds. This period was known as Globalisation 1.0. Globalisation 2.0 followed between 1800 and 2000, as businesses, empowered by technological developments and progress in transport and logistics, began to expand across borders.

In the current era, which Friedman defines as Globalisation 3.0, individuals and businesses from every corner of the world are interconnected and empowered, shrinking the world and creating a truly global marketplace and economy. However, recent events, including the UK's decision to leave the European Union and Donald Trump's protectionist rhetoric, have thrown much of what was taken for granted about globalisation into doubt. For businesses operating in Asia Pacific (APAC), this raises some interesting questions about the future of the international business landscape – and whether businesses will be able to continue operating across borders with relative ease.

In perspective: globalisation and international business

The hope is that, despite the events of 2016 and the recent backlash against globalisation, governments will continue to allow global trade to flourish. "Globalisation and the rise of global free trade has had an incredibly positive impact on the global economy," says Mark Evans, Managing Director, Transaction Banking at ANZ. "Open markets are proven to bring economic growth, innovation, productivity and prosperity."

The globalised world has also afforded businesses all manner of opportunities to grow by expanding into new markets and creating new revenue streams. Indeed, the latest statistics from the S&P 500 highlight that 44.3% of their profits are made outside of their home market of the US. This trend is further emphasised by large international brands, with stores and products which are ubiquitous around the world.

Globalisation and free trade have enabled businesses not only to increase revenues by tapping into new markets, but also to operate more efficiently, says Michael Lim, Head of Trade and Supply Chain at ANZ. "The opening up of emerging market economies has enabled businesses to think more strategically about their supply chain and pick and choose where they are producing," he says. "The rationale behind each decision will vary from company to company, but essentially the aim is either to drive cost savings by producing in countries with low labour costs, or to gain a competitive advantage by producing close to the resource base, thereby creating speed and agility in the supply chain."

Asia Pacific has played a central role as corporate supply chains have evolved, and China has been a particular beneficiary. In the 1990s, China produced less than 3% of global manufacturing output by value. Today, thanks to various economic and trade policy reforms, the country produces nearly 25% of global goods and is the world's largest exporter.

In more recent years, other countries in Asia, most notably from the ASEAN region, have looked to leverage this trend and take on segments of the supply chain. With over 80% of companies based in emerging markets planning to relocate parts of their supply chains to other emerging markets, it is a strategy that many businesses hope they are able to continue to follow.

Challenges facing international business models

This cannot be taken for granted, though, as these operating models are under increasing pressure as globalisation comes under attack. "Socially, there has been a clear backlash around the world against globalisation," says Evans. "In the western world, people

> In particular, ANZ suggests businesses should take a good look at their supply chains, especially if these include countries which are currently embroiled in trade disputes or are leaning towards protectionism. Again, the advice is not to panic but to make sure that a degree of flexibility is built into the supply chain, providing the option of switching suppliers should the need arise.

are angry that jobs are being lost as work is outsourced into low-cost markets. This has resulted in political disenfranchisement, with a shift towards political leaders that employ protectionist policies."

This is most evident in the United States where Donald Trump's decision to pull the US out of the Trans-Pacific Partnership (TPP) – a trade agreement that encompassed 40% of global GDP – and his desire to impose high tariffs to punish foreign governments which adopt unfair trading practices and force US firms to import less, seemingly contradict the globalist policies of most American multinationals.

While the shift in US policy is causing concern, the US is not the only country to be preaching protectionism. The UK's decision to leave the European Union is another example, and other countries in Europe are also increasingly looking inwards. This poses a considerable risk to international business, and Evans notes that he has already seen the confidence of many businesses knocked as a result.

It is not just political forces that are putting pressure on the structure of international business. Uncertainty around regulation remains a key impediment, especially in some of APAC's more restricted markets. To highlight this, Evans discusses some of the recent challenges ANZ's clients are facing in China. "Doing business in China is much more complex than before and we need to be in a position to help our clients navigate the complexity of Asia's diverse markets."

Businesses are also being affected by extra-territorial regulation. "Regulations are tightening, especially around areas such as anti-money laundering and modern slavery," Evans explains. "This is, of course, a positive move, but what makes it difficult for businesses is that local governments are interpreting these rules differently. Corporates need to be much more careful when using low-cost labour in emerging markets to make sure that they are not breaching any local laws regarding modern slavery, for example."

The importance of options

As a result of these pressures, it is not surprising that some firms have begun to ask whether the costs of manufacturing outside of their home markets may outweigh the benefits. These are certainly questions that multinational corporations and their treasury teams, which have increasingly become pivotal in the strategic direction of the company, should be considering.

"We have had numerous clients come to us and ask questions about the various political, economic and social trends in the markets they are operating in," says Lim. "This is a positive sign because it shows that our clients are thinking proactively about what all these developments mean and trying to understand the risks and opportunities that these create for the business. But our overriding advice is always not to panic: these trends are very unlikely to cause business to grind to a halt."

That said, some alterations may be needed. As a result of these conversations, ANZ is already seeing many treasury teams make some changes, with some increasing their hedging in light of increased market volatility. "This is helping smooth out that volatility for the business over the short term and this will be a key role for treasurers in the comings months and years," says Evans.

But any true risk management strategy cannot rely on short-term hedging strategies alone and the business must adapt and evolve in accordance with the changing business environment. "Every good business strategy considers the risks to that strategy and should always have options to move in another direction should need be," says Evans. "Treasurers should certainly be looking at putting in place a Plan B should these anti-globalisation trends continue. This isn't alarmist, simply good practice."

In particular, ANZ suggests businesses should take a good look at their supply chains, especially if these include countries which are currently embroiled in trade disputes or are leaning towards protectionism. Again, the advice is not to panic but to make sure that a degree of flexibility is built into the supply chain, providing the option of switching suppliers should the need arise.

"Supply chains are complex constructs and take a long time to establish and cultivate," says Lim. "As a result, these cannot be changed overnight, but we do believe that treasurers and procurement teams need to be working together to consider alternative options with the objective of making sure that the business can continue to operate smoothly, no matter what political or regulatory changes occur."

Ultimately, for treasurers, it is about staying ahead of the game – and with forward planning, this shouldn't be a problem. "Regulations and legislation don't typically change overnight," says Lim. "There is always time to react, but sometimes this does require businesses to be uncharacteristically nimble. We therefore encourage our clients to keep abreast of the winds of political change and ensure they have an action plan for the alternate scenario."

Digital trade flows

While treasurers manage the risks of doing business across multiple international markets, there are also opportunities that must be considered, particularly in the digital space. E-commerce, for instance, has proliferated in recent years and now accounts for an estimated 12% of all trade. For businesses, the ability to reach a broader audience without the need for a bricks and mortar store is clearly attractive.

If sales are to go truly digital, so must the underlying processes that support these. "We have been talking about international trade going digital for decades and in recent years this has begun to gain some real momentum," notes Lim. "But as e-commerce takes hold, corporates are beginning to see the full benefits of removing paper and creating efficiencies, both from a cost and control perspective and in terms of removing friction from the process."

It is not easy though, and corporates can often find themselves caught having to manage local laws that can sometimes prohibit the digitisation of business. "We hope that this will not always be the case," says Lim. "Countries such as Singapore are leading the way in promoting digital trade flows. I think these efforts will converge and we will see other countries following suit because the benefits for all parties are clear."

Payments innovation

If the product and document flow is to be seamless, the payment flow needs to be similarly smooth. Unfortunately, at present, the underlying payments infrastructure often causes problems for organisations operating and selling internationally. Payments, especially cross-border, are cited as being slow, expensive, opaque and problematic from an operational and compliance perspective.

Despite this, Evans is keen to highlight that a lot of work is being done at present to improve the payments infrastructure. "SWIFT's global payment innovation (gpi) initiative is just one exciting development and we are very interested to see how it works now it is live," he says. "It has the potential to solve many of the cross-border payments challenges that companies face by providing full visibility over transactions, delivering certainty and eventually also providing rich remittance information."

Evans also notes that blockchain will have a role to play in the payments space and in the digitisation of trade documents. "It is clear that distributed ledger technology will provide our clients enormous benefits at some stage in the future," he says. "We have already been involved in a number of groundbreaking pilots, including testing the technology in cross-border payments, and we will keep working on this area. It is important though that expectations are managed. Treasurers need to understand that it is not going to fix all the challenges in international business overnight, but slowly benefits begin to be realised."

All this innovation, no matter what form, typically brings a standardised set of benefits. As Evans explains: "For all parties involved in international trade, these digital solutions help provide transparency, certainty and efficiency, creating a better trading environment for all."

To take advantage of all this technological change, treasurers once again need to be prepared. Lim advises that treasurers should ensure that their processes are efficient and standardised. "If they are not, it will be very difficult to move quickly and take advantage of these new technologies once they become available," he says.

Finger on the pulse

Despite the events of 2016 and a perceived pushback against globalisation, business remains increasingly international, from the existence of complex supply chains to the opportunities brought by e-commerce. But in this period of heightened volatility, it is prudent to question current business models and their long-term viability.

Managing this dichotomy between the forces of globalisation and localisation will pose an interesting challenge to corporates and their treasury teams in the years ahead. In order to prepare for what is to come, both Evans and Lim reaffirm that it is important to have options in place and to plan for any different scenarios that could impact the business. "This is crucial to help corporate treasury teams, as well as procurement teams, manage risks proactively and position themselves to take advantage of any opportunities as they arise," concludes Evans.

Mark Evans, Managing Director, Transaction Banking, Institutional

Mark Evans is Managing Director, Transaction Banking, Institutional, at ANZ. Mark is responsible for end-to-end transaction banking services – including payments, cash management, trade finance and supply chain finance solutions – across ANZ's home markets of Australia and New Zealand and the bank's footprint globally.

Michael Lim, Head of Trade and Supply Chain

Based in Sydney, Mike Lim is responsible for ANZ's Trade & Supply Chain business which supports our customers in 34 countries. Mike has over 25 years of banking experience in Client Coverage, Risk and Product with the past 15 years focused on trade, commodities and structured finance.

Leading by example

Janko Hahn
Head of Treasury Operations

autoneum

It has been a busy few years for Janko Hahn, Head of Treasury Operations at Autoneum. Since assuming control of the treasury operations function he has worked tirelessly to drive efficiency, keep the business abreast of changing regulations and stay ahead of the technology curve. Here, Hahn details how his cooperative and inclusive approach to treasury has enabled him to do this effectively and with great results.

Autoneum is the globally leading supplier of multifunctional and lightweight components and systems for noise and heat protection that increase automobile comfort. The company is represented at around 50 locations in over 20 countries and has a workforce of more than 11,000 employees worldwide.

When asked what his biggest learning experience working in treasury has been, Janko Hahn, Head of Treasury Operations at Autoneum has an interesting answer: "Treasury must think globally, but act locally."

No, Hahn is not a disciple of business newspeak, but a pragmatic treasury practitioner whose previous experiences have shaped an inclusive and cooperative approach to the role. The aim: to ensure that treasury adds value to Autoneum's business by coming together to find suitable solutions to meet their challenges.

Over the last five years, Hahn's philosophy and treasury skills have been put to the test as Autoneum has undergone a number of enterprise-wide transformational projects in an effort to become more streamlined and efficient.

Shaping a philosophy

Like many treasury professionals, Hahn's pathway to the profession was far from deliberate. Having obtained a Master's Degree in Economics from the University of Augsburg in Germany, Hahn joined the Timberland European treasury team based in Schaffhausen, Switzerland as a Cash Manager in 2005 and later assumed the role of Treasury Manager in 2008.

Despite this being his first treasury role, Hahn's five-year spell at Timberland proved to be vital in shaping his treasury philosophy – more precisely his belief that treasury must "think global, but act local."

"The treasury department of Timberland in Switzerland was an outpost of the US parent," Hahn explains. "All policies were driven by the treasury team in the US without much consultation of how these policies would play out locally in Europe."

Although Hahn appreciated that this was simply the culture of the company – and he admits that for the most part, it worked well – there were times that he believed the company would have benefited by taking a more local view, especially in areas such as selecting bank partners. "Since then I have tried to keep this in mind with every project I undertake and make sure that local voices are heard during the decision-making process," he says.

Aside from beginning to form his philosophy, Hahn's time at Timberland also provided him with a solid grounding in how treasury operates and the skills required to be successful. As well as learning on the job, Hahn believed it was important to gain a formal treasury qualification if he was to pursue a career in the profession. He, therefore, decided to undertake the Swiss Certified Treasurer programme.

"Treasury is still quite a niche role and it is not taught widely in university, so I believe obtaining a qualification from a professional body is vital to provide a solid grounding in the profession and a toolbox of skills that can be applied in a range of treasury situations," Hahn notes. "It will also help you take the next step forward in your treasury career."

This was certainly true for Hahn, who a few years after obtaining this qualification was offered the chance to move to Swiss manufacturing company Rieter, in 2010. "This was an exciting opportunity because in mid-2010 the automotive division of Rieter was separated and listed independently under the name Autoneum on the Swiss Stock Exchange," he explains. "I had the chance to prepare the spin-off and worked on splitting the cash management structure, bank accounts and cash pool. I was also involved in a new club deal to finance the newly founded Autoneum Group."

Taking shape

Hahn was then given the opportunity to lead the treasury operations team of the newly founded Autoneum Group. Following the spin-off, he had to cope with a rather inefficient structure – especially in the area of payments, where transfers were paid either through local structured host-to-host connections, disparate e-banking systems, or even fax payments, in some instances.

Hahn also faced an outdated treasury management system (TMS), which he knew needed to be replaced if the treasury was to achieve its ambitions. "We considered several specialist TMS systems, but we soon caught wind that the company would be implementing a new ERP system," he explains. "We could see big benefits in integrating the treasury operation with this, especially if we had a say in the design of its architecture."

> "Treasury is still quite a niche role and it is not taught widely in university, so I believe obtaining a qualification from a professional body is vital to provide a solid grounding in the profession and a toolbox of skills that can be applied in a range of treasury situations.

Hahn and his boss quickly made sure that treasury was an integral part of the design team and began outlining his vision of a company-wide payment factory that would become a key tenet of the group's process reengineering project, which started a few years ago and where SAP is the instrument of choice. This would see the payment flows of the group centralised and also ensure that the execution of file transfers could be conducted in a low-cost and efficient manner.

Acting local

This is a big project, with implications not only for how the treasury operated but also for the local business units on the ground who had, until recently, conducted payments themselves. "Designing the new system and making sure it worked the way we wanted to was tough, but the big challenge was controlling the change management process," Hahn explains.

As Hahn's previous experiences demonstrated, listening to those on the ground and ensuring that their vision is taken into account and aligned with the broader 'global' philosophy, leads to the best outcome. The challenge is to create a perfect blend of global and local.

"There is no 'right' way to do this," says Hahn. "But clear and precise communication is key." He stresses that this doesn't simply mean making sure the business units understand why something is being done and the benefits this will bring – although this is important – but also listening to their concerns and finding out which areas they may feel uncomfortable with.

Interestingly, Hahn highlights that the company's banking relationships were one topic which prompted much debate: the local entities had previously controlled these and formed strong relationships. But with over 100 bank accounts globally, and with a disparate group of banking partners, there was a need to rationalise.

"It is here where local insight really helps," says Hahn. "In Mexico, for instance, we asked the business units to use the US-based bank that we use in the rest of North America. The business units, however, claimed this bank could not support them in some nuanced areas around tax and social security payments and suggested another bank that could. We investigated this bank and then found we could leverage the relationships in some South American countries as well, so it made sense to go with them and everybody was satisfied."

Hahn has learnt many lessons working on this project and there are more to come as the company further investigates leveraging more advanced tools such as payments on behalf of (POBO) and collections on behalf of (COBO). But he has taken some time to reflect on his success. "It is something I am very proud of," he says. "We now have a best in class, standardised, streamlined and efficient approach which – once the roll-out of SAP has been completed – will be used globally across our entities and helps deliver many benefits."

Emerging challenges

Despite the SAP rollout and the payment factory project taking up a significant amount of Hahn's time, there are always other items on the agenda – especially given the company's presence in some of the world's more challenging markets.

"China, for example, is a very important market for the company," he says. "But it is a challenging place to do business for treasury." In recent months, the biggest challenge has come from the growing use of Bank Acceptance Drafts (BADs). A BAD, which is similar to a guaranteed cheque, is a guarantee from a bank that a payment will be made on a future date that can be up to six months if issued on paper, or a year if issued electronically. Originally intended to facilitate trade, BADs are now widely used by companies as a secondary currency that helps them meet payment obligations.

"BADs dramatically extend the terms in which our customers are paying us, which puts pressure on the liquidity of the entities in the country," adds Hahn. "They also provide a challenge from an operational perspective because of the amount of paper that needs to be processed."

Hahn is also dealing with some less familiar countries. Autoneum, for instance, is just one of a number of global companies in talks to take advantage of the opportunities in Iran now that international sanctions have been lifted. "We will be following this closely in the coming months," he says. "Iran might offer an attractive business potential to the company, but with many international banks still facing restrictions, it won't be easy for treasury to operate there. We will have to explore innovative ways to transfer funds without paying high fees, to handle local currency from an FX perspective and to cope with regulatory complexity."

Wider scope

Hahn notes that the treasury is not just dealing with nuances in country regulation: the continued growth in international regulation presents an equal challenge. "The regulatory burden is growing and I don't see this abating any time soon," he says. "What is more, often these regulations move beyond 'core' treasury topics, making them all the more complex."

He cites the OECD's Base Erosion Profit Shifting (BEPS) scheme as one example of this. "This regulation is coming in from a taxation angle, but the impact it will have on treasury operations will be profound," he explains. As such, Hahn believes that treasury professionals now need to look beyond their original remit and become well-versed in peripheral areas, such as tax or regulatory changes.

Therefore, together with a former Rieter colleague, Hahn went to the IFZ in Zug which runs the "Swiss Certified Treasurer" programme and discussed this topic with them. "I realised from my own experience and that of my peers that there is limited tax or regulatory knowledge in the treasury space, but lots of demand for information," he says. "Together with the institute and thanks to the support of the Swiss Association of Corporate Treasurers we have been able to design a short three-day course to meet this demand and help the treasury profession as a whole grow and gain additional insights in this area." The course will debut in May this year under the title 'Swiss Treasury Practice'.

Crystal ball gazing

As well as keeping abreast of changing regulation, Hahn also spends a lot of time surveying the evolving technology landscape. Indeed, like many treasury professionals who have been inundated with a plethora of new technological ideas in recent years, Hahn remains unsure about what will work and what won't.

One area he is sure will be significantly impacted, however, is the world of payments. "We are already seeing some big changes here, especially around instant payments and the transfer of same-day value," he says. "And I expect this to continue to develop. Perhaps some new payment companies will begin to eat into the banks' business."

Elsewhere, Hahn is seeing lots of activity in the financial supply chain space. "There are lots of companies, a mixture of fintech and banks, all working in this area," he says. "The problem is that it is developing in hundreds of different directions so nobody can be certain about which way is right." He believes then that there needs to be a significant amount of consolidation before the wider treasury community begins to move towards the mass adoption of these solutions.

Although the impact of fintech on corporate treasury may be limited in the short term, Hahn believes that there will be a significant impact on the banks. "In fact, how the fintech industry forces banks to adapt may just be the biggest impact that fintech has," claims Hahn. "Not only are banks being challenged by competitors they didn't know existed a year or two ago, they are also seeing that the corporate community may benefit from solutions where they do not have sufficient experience. The banks' strategies are changing as a result, and they will have to continue to adapt to remain relevant to their corporate clients in the future. It is an exciting space."

More to do

With further work to be done on the group's payment factory, a host of in-country and extra-territorial regulation to understand, new skills to learn and a changing technological landscape to understand and digest, Hahn says he is unlikely to become bored of treasury any time soon. He also has ambitions to work more closely with the industry as a whole to drive the profession forward, just as he has aimed to do with the treasury and tax qualification.

If this wasn't enough, having a young family is also keeping Hahn more than occupied, and in an effort to achieve a more effective work-life balance he has recently reduced his working hours to four days a week, to spend more time with them. Hahn hopes that by doing this, he will also have more time to enjoy the stunning landscapes around his new home on the Swiss border.

Voice of Corporate Treasury

in association with Bank of America Merrill Lynch

Be part of the global conversation

Our Voice of Corporate Treasury Global Study 2017, in association with Bank of America Merrill Lynch, opened on 1st February. Many corporates around the world have already participated and we encourage you to join them.

Your support is crucial to our better understanding of the environment in which you currently operate. It is only by giving you the opportunity to speak up and listening to what you have to say that we will, together, improve our industry.

We understand that you have to do more with less, yet you are still required to maintain sound financial disciplines whilst demonstrating best practice and innovation. We want to help you as you tackle these challenges and we encourage you to participate in this important research study.

This is your opportunity to tell us what your main issues and concerns are. Please tell us about the challenges you are facing and perhaps suggest what else is needed in the corporate treasury space.

This study covers the increasing responsibilities of the corporate treasury function, your outlook for the future, from treasury priorities and bank relations to risk management, technology, cyber-security, fraud, funding, liquidity and investments.

"Banks and corporates face an increasingly complex and fragmented marketplace driven by globalisation, digital delivery and entrepreneurship. We believe it is more important than ever for banks and service providers to collaborate with each other and corporates to keep providing value to the industry. That is why we are delighted to be supporting Treasury Today's Voice of Corporate Treasury Global Study in 2017," says Jonathon Traer-Clark, Head of Global Transaction Services Strategy at Bank of America Merrill Lynch.

All participating corporates will receive a full copy of the findings, enabling you to compare your issues with your peers.

The study can be found at **treasurytoday.com/voct** and we hope you are able to participate. Individual responses will not be shared and your detailed comments, opinions and observations are as important as the tick-box responses so please do complete the free format boxes in the study wherever you have more to say.

You have until 30th April to have your say. Thank you.

Making cyber-security a business enabler

With high-profile cyber-attacks continuing to make headlines, treasurers cannot afford to ignore the importance of cyber-security. But should this area be viewed as a straightforward necessity, or can it be approached as a business enabler?

The risk of cyber-attacks was a major theme in 2017, with a number of high-profile incidents underlining both the breadth of attacks taking place and the scale of possible losses. In February, US$81m was stolen from Bangladesh Bank in an attack which had attempted to steal almost US$1bn. In December, Yahoo revealed that a data breach from August 2013 had affected a billion users.

Even when the figures are less staggering, the impact of a cyber-attack can still be considerable. According to Cisco's 2017 Annual Cybersecurity Report, 29% of security professionals said that their organisations experienced a loss of revenue as a result of cyber-attacks, with 38% saying their revenue loss was 20% or higher. Twenty two percent of organisations said they had lost customers as a result of cyber-attacks, while 23% said they had experienced a loss of business opportunity.

From data breaches to distributed denial-of-service (DDoS) attacks, businesses may be at risk from many different types of cyber threat. Linda Coven, Senior Analyst at Aite Group, points out that the threat of a cyber-attack has grown beyond the account takeover to the potential for stolen company secrets and intellectual property. She notes that these attacks can take the following forms:

- Social engineering fraud using network breaches and stolen credential information.
- Nation states – sponsored attacks, which may be politically, economically or militarily motivated.
- Continued DDoS attacks of significant volume and frequency against financial institutions, often to cover fraudulent activities.
- Extortion (ransomware) – demands for money or other 'payments' from a business.
- Espionage against governments and business intellectual property.
- Business Email Compromise – accessing executives' accounts to gain credentials or spoof email to elicit a funds transfer.

It is clear that these threats are becoming more severe as cyber-criminals refine their techniques. "Are the bad guys getting more sophisticated? Absolutely," says Mike Lamberg, Chief Information Security Officer at OpenLink, and the former VP of Information Security at the NYSE. "Social engineering, or the practice of getting someone to trust you and do things you want them to do, continues to increase and be the prevalent method of infiltrating an organisation and doing harm." Lamberg points out that this could take the form of a legitimate looking email, enticing website ad – "or a simple phone call leading to a loss of confidential information, or causing an inappropriate funds transfer, for example."

Targeting treasury

Where corporate treasury is concerned, the most significant concern is the risk that a fraudulent payment will be made. This is a very real risk for companies around the world. The 2016 AFP Fraud Report found that 73% of American companies were targeted by payments fraud in 2015 – up from 62% in 2014. While cheques were found to be the payment method most often targeted by fraudsters, the research also found that 64% of businesses were exposed to BEC scams, while 48% were exposed to wire fraud.

Increasingly, sophisticated spear-phishing attacks are being aimed specifically at finance and treasury staff. "Recent sophisticated attacks on systems and services that offered weak overall security have directly targeted the treasury and payments systems that sit at the heart of a modern corporate treasury," says Andrew Bateman, Head of Corporate Liquidity and Bank Treasury at FIS.

The strategies used by criminals continue to evolve. Bateman notes that "social engineering attacks through phishing and/or spear-phishing attacks as a vector for installing malware, or other advanced persistent threat (APT) components, remains a significantly high component of the threat." The nature of the APT components is changing in sophistication year on year, as is the professionalism of the most sophisticated phishing attacks. Bateman adds, "We are seeing more targeted attacks on financial systems and finance employees."

But despite these threats, treasurers may not be doing everything possible to protect their businesses. Bateman says that treasurers are "probably not yet as concerned as they need to be". He adds, "While we are seeing a clearly strong and growing awareness amongst treasurers of the risks that cyber-attacks place on their businesses, the active engagement that is required to address it is lagging a little."

According to Bateman, this lag may be attributed in part to the "legacy view" that treasury remains somewhat isolated from the outside world – although the targeting of treasury staff demonstrates that the reality is changed.

Meanwhile, businesses may be reacting more robustly in some regions than in others. In Asia, for example, the risk of cyber-attacks is particularly strong. Research published last year by US internet security company Mandiant said that the

Liability for fraud

If the worst happens and a company falls victim to a significant cyber-attack, is there anything companies can do to get their money back? David Stebbings, Director, Head of Treasury Advisory at PwC, says that while companies are focusing their attention on how to protect themselves from an attack, they are also keen to understand whether their banks, technology providers or SWIFT bureaus may take some liability for the loss.

"In the past, it's always been assumed amongst the corporate community that once you sent a payment message via the bank, if something went wrong, they would pay you back for the loss," explains Stebbings. "Obviously the challenge was proving that it was not your fault and that you had sent them valid instructions, but based on the relationship repayment was often assumed." More recently, however, Stebbings notes that banks may be tightening up their approach such that this assumption may no longer be as true as previously.

Technology providers, meanwhile, may simply be unable to repay a large sum, whatever the circumstances. "The challenge for them is to show that they are the best in terms of minimising this risk, given their focus on cyber security measures and persuading treasurers and their IT people that this is the case," Stebbings explains.

"Unfortunately for a treasurer or finance person, although the chance of something happening is remote, the scale of the loss if something does happen is probably career damaging. So choosing the right payment providers is very important and obviously the providers which can show they have the best security have a competitive advantage."

In some cases, companies may wish to check for themselves that their third-party providers have sufficient security controls in place. "One of my clients wanted to go to their SWIFT bureau every year," Stebbings explains. "The SWIFT bureau gave them a certificate of its controls which had been provided by audit firms, but the client wanted to go down to the bunker themselves and test the security controls independently." Stebbings argues that supporting this level of scrutiny should be seen as a positive thing by third party vendors – "if you want to sell this stuff, and you want to be top of the market, it could be one of your selling points."

median time between a breach occurring and being discovered is 520 days in APAC, compared to 146 days globally. The reported noted that "APAC organisations are frequently unprepared to identify and respond to breaches", pointing out that most breaches in APAC never become public due to a lack of effective breach disclosure laws.

But despite the scale of these risks, not all companies are focusing on cyber-attacks as a high priority for corporate treasury. David Blair, an independent treasury consultant based in Singapore, notes that where treasurers in Asia are concerned, "Asia is probably behind on this, despite at least equal risks compared to western businesses."

Making cyber-security a business enabler

With so many threats to consider, is cyber-security a straightforward necessity, or can it be viewed as a business enabler? For third-party vendors, such as treasury management system vendors, SWIFT bureaus or third-party payment providers, it is clear that cyber-security falls into the latter category. "If you are a third-party provider, you can turn this to your advantage by spelling out your investment in security and how often you test your controls and have them validated independently," Stebbings explains. "So they can certainly turn it to a competitive advantage."

For corporate treasurers, the situation is less clear-cut. In Asia, for example, Blair says that this topic is "more of a survival requirement", adding that it is "hard to see security intrinsically bringing better products and services to customers". On the other hand, he notes that a lack of security can hurt customer satisfaction.

OpenLink's Lamberg comments that cyber-security is definitely a necessity, and that making it a business enabler "would require a company's senior leadership and board to view cyber-security as a strategic asset that is partnered with the business itself". Until that happens, Lamberg says, "it will be viewed as a quasi-tax or insurance".

However, this is also an area which is evolving rapidly, and companies are adjusting the way in which they approach cyber-security as the threats develop. Bateman argues that cyber security should – and can – be a business enabler as well as a necessity.

"Treasurers, and their organisations right through to Board oversight level, will expect security and risk management to be built into the solutions and services their organisations consume – and will expect their cloud vendors, their partners, and their service providers to focus on cyber security as a key element of an overall offering," he explains. "Treasurers will give greater value to those offerings that have superior cyber risk protection in the same way we value any quality metric, and partners or vendors that excel in this area will be advantaged in their client relationships."

How can cyber-security deliver business improvements? Aside from avoiding financial loss, the most obvious improvements lie in increasing efficiency and managing risks more effectively. Marcus Hughes, Head of Strategic Business Development at Bottomline Technologies, points out that implementing increased controls "not only helps a treasurer to remain compliant and fight financial crime, but it also makes a business more efficient by reducing errors and cutting the risk of losing money."

Coven agrees that cyber-security can be seen as a business enabler, pointing out that the costs of an attack can be devastating. These may include direct damages, such as missing funds, trade secrets, damaged hardware and software and business disruption. "There are also response costs such as notifications to employees or customers and in some cases having to provide services such as credit monitoring to those affected," she explains. "And of course there is reputational damage which can lead to loss of customers, goodwill of suppliers and diminished valuation for investors."

As such, Coven says that companies need to take cyber-security seriously. This involves making it part of the company's culture to manage risk at all levels, and making this area "the responsibility of everyone".

Best practice

With so many threats to consider, what actions should treasurers be taking to protect their businesses from cyber-crime? The following actions may help treasurers avoid falling victim to a cyber-attack:

- **Secure your devices.** All devices on the network should be secure, with up-to-date virus protection.
- **Practice good password hygiene.** Strong passwords should be used and users should be required to change their passwords regularly. Different passwords should be used for different systems.
- **Use the latest versions.** "Ensuring systems are on the latest versions, and the systems and vendors have robust and audited security and risk management processes in place, should now be a key element of any treasury or financial professional's role," advises Bateman.
- **Segregation of duties.** Where possible, different staff should be tasked with initiating payments, approving payments and reconciling the accounts.
- **Enforce network separation.** Lamberg says that treasury and financial systems should be physically and logically separated from the general corporate network. "You need to minimise the chances that a rogue network user could gain access to your key financial systems," he adds.
- **Inform and educate.** All too often, employees themselves are the weak spot when it comes to preventing fraud. "With proper training on how to recognise a cyber-security event, phishing email or a suspicious link on a web page will go a long way to reducing the security risk in an organisation," says Lamberg.
- **For incoming emails,** 'trust but verify'. "A basic step for any employee to make before clicking a link in an email is to press the "reply" button and examine the email domain for discrepancies, since fraudsters can buy nearly identical domains," explains Coven.
- **Use screening solutions.** By screening payment files against sanctions lists, Hughes says that treasurers can avoid the reputational risk of being identified by their banks as trying to make payments to black-listed organisations or individuals. "It also builds a good relationship with banking partners by reducing their payment investigations work," he adds. Hughes points out that screening solutions can also be used to identify inappropriate payments diverted to fraudster employees, or to accounts which do not appear on the controlled list of suppliers.
- **Use anomaly detection systems.** Such systems can be used to identify anomalies and alert management to payment files which do not fit within normal patterns, such as payments above preconfigured limits. "This not only prevents fraud but also identifies operational errors, such as failure to submit a payment file by a certain deadline," explains Hughes.

> "Ensuring systems are on the latest versions, and the systems and vendors have robust and audited security and risk management processes in place, should now be a key element of any treasury or financial professionals' role.
>
> Andrew Bateman, Head of Corporate Liquidity and Bank Treasury, FIS

- **Track employees' use of mission critical applications.** Tracking how employees use certain applications can reveal anomalies and suspicious behaviour. Hughes notes, "this non-intrusive way of monitoring user activity enables management to capture and replay such behaviour, rather like a CCTV, not only recording any information, such as amount or account number, which has been tampered with, but also tracking all screens which have been viewed by employees."
- **Carry out simulations.** Blair advises that treasurers should "accept you will be hacked and be prepared to deal with it", adding that this should include carrying out regular simulations like fire drills, designing systems and processes on the assumption that hacking will occur.

Direction of travel

By necessity, cyber-security is an area which continues to develop rapidly. As Lamberg points out, "the bad guys are getting smarter with new technology and techniques, forcing all of us to get smarter and implement newer technology to anticipate and defend against them."

In terms of future developments, Blair says he hopes that software will increasingly be built for security, much as it is now tested for bugs. "I expect more human-friendly security arrangements to progress beyond the current multiplicity of impossible to memorise passwords (face, blood vessels, etc)," he says, adding that the advent of voice, as heralded by developments such as echo and siri, will open a "whole new can of worms". Blair also comments that people will increasingly have to accept that some convenience will need to be sacrificed in order to maintain security, with companies increasingly locking down work computers and restricting BYO devices.

Bateman, meanwhile, says that "there needs to be greater partnership between governments, NGOs and corporate entities in information sharing and threat prevention." He adds that this should involve moving to a real-time threat information sharing model, allowing all partners to move quickly and efficiently and to benefit from each other's experiences.

In conclusion, cyber-security is a topic that no treasurer can afford to ignore. Whether this area is regarded as a necessary evil or a business enabler may vary from company to company – but what is clear is that this topic will only become more crucial as the threats continue to evolve.

BNP PARIBAS

Managing the almighty greenback – optimising your US dollar cash flows globally

The US dollar continues to be the most dominant currency for global trade flows. Most multinationals are forced to deal with significant USD flows throughout their financial supply chain around the world. Managing these flows across different regions, time-zones and regulatory environments can be very challenging, whether organisations are collecting USD from customers, paying USD to their suppliers or investing excess USD. For those excess funds, what options are available to optimise returns on USD located around the globe? In a recent webinar hosted by Treasury Today, senior executives from BNP Paribas discussed why the USD is the most dominant currency globally.

Walid Shuman
Managing Director, Head of Cash Management Americas, Corporate & Institutional Banking, BNP Paribas

Jan Rottiers
Managing Director, Head of Liquidity Management Products & Projects, BNP Paribas

James Santoro
Managing Director and Head of Liquidity & Investment Advisory Americas, Corporate & Institutional Banking, BNP Paribas

Walid Shuman opened proceedings by identifying the key challenges in managing USD flows globally: control, visibility, time zones, regulations and cost/efficiency.

The presentation emphasised that a myriad of opportunities exist to most effectively manage your USD and optimise returns on your cash. With the multitude of investment options, irrespective of a centralised or decentralised treasury structure, it is important to work with your banking providers to understand what solutions best enable your company to optimise its cash.

Shuman recommended corporates should "speak with their banking partners to source advice on whether a centralised or decentralised model makes more sense and where to locate the company's US dollars."

BNP Paribas regularly receives questions from its clients on structure types such as:

"Can I centralise my USD accounts globally in the US and manage my payments and collections worldwide centrally?"

"Could this structure type (centralised/decentralised) work for my company and, if so, what are the pros/cons?"

For some companies a centralised structure in the US works very efficiently and achieves all of the benefits without losing any local advantages.

The global functional currency… yield generating currency

James Santoro discussed the question of centralised vs decentralised structures and the three key pillars of any investment decision, namely liquidity, yield and risk. Please see the table below. He also spoke about Basel III and how banks, such as BNP Paribas, are dealing with the Liquidity Coverage Ratio (LCR) requirement.

The presentation also explained that not all liquidity is valued equally by banks. As Santoro explained, "The ability to provide banks with additional transactions or the ability to place funds 'out along the curve' will translate into the highest yields."

Treasury considerations for optimising USD structures

Jan Rottiers moved the conversation into the area of centralisation and decentralisation enablers and how the two approaches will impact the cash pooling (notional and/or physical) solutions available: "Centralisation is not a goal in itself," he explained.

The presentation concluded by revisiting the three key questions posed at the opening of the webinar:

What are best practices for establishing USD cash management structures worldwide?

- Degree of centralisation.
- Key drivers and considerations.
- Cost/benefit.

What opportunities and benefits can be gained by managing USD more efficiently?

- Optimise yield.
- Cost efficiencies.
- Working capital.
- Non-economic benefits.

Are centralised treasury structures or decentralised structures better for increasing investment returns on USD?

- Opportunities exist, irrespective of structure.
- Decentralised structure – products that enable 'aggregating' cash.
- Centralised structure – products/providers that value incremental cash.

Three key pillars of any investment decision

LIQUIDITY

- Payment needs will determine 'liquidity' requirements.
- Working capital needs require products offering daily liquidity.
- Reserve/strategic cash can seek yield in longer tenor options.

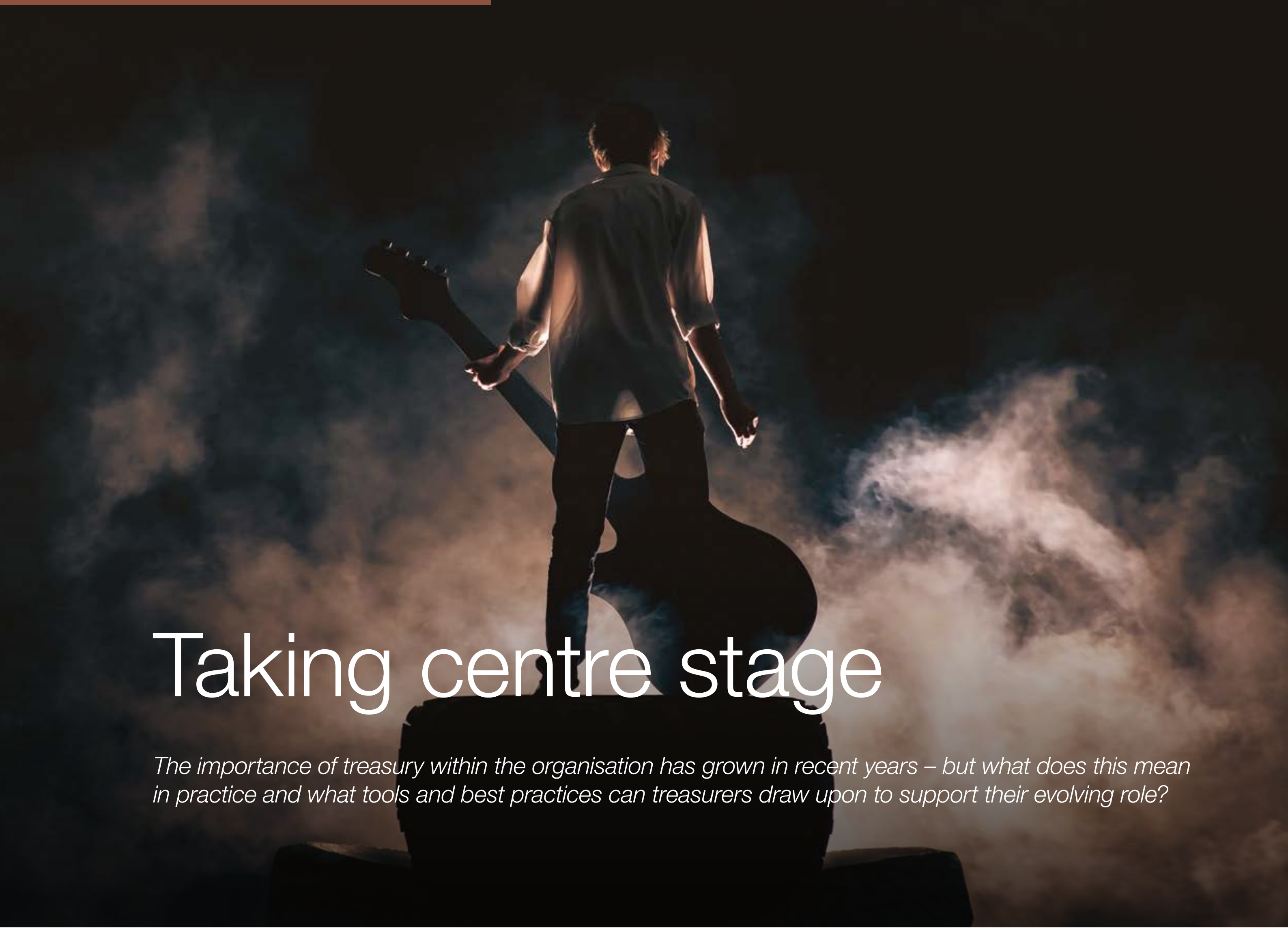
YIELD

- Opportunity for yield with every liquidity product.
- Often not primary 'driver' of investment decisions with 'treasury' cash, but still extremely important.
- Has to be compelling enough to compensate for 'switching' costs.

RISK

- Principal preservation is often cited as primary concern (validated in IPS).
- Treasury cash is for working capital needs/shareholders, not generating investment returns.
- Demonstrating soundness of principal requires 'right' product and provider.

If you missed the live webinar and would like to watch the full presentation it is available at ***treasurytoday.com/webinar***



Taking centre stage

The importance of treasury within the organisation has grown in recent years – but what does this mean in practice and what tools and best practices can treasurers draw upon to support their evolving role?

Today's treasury teams juggle all the usual mandates around cash and FX management, liquidity planning, banking relationships and trade finance. Yet these tasks have grown more complex as companies venture into new jurisdictions, global markets change and demands around risk management and transparency grow. This means that treasury expertise and strategic advice, particularly around funding and exposure to risk, is increasingly valued within corporations. In what areas are treasury teams taking centre stage to drive value across organisations, and is treasury getting the support it needs in its evolving role?

Care for cash

The evolution of the treasurer's role has its roots in the 2008 financial crisis. The banking turmoil sparked a recognition amongst corporate boards that finance wouldn't be as easily available, leading to a greater focus on cash management and raising finance. "Pre-financial crisis, the role of the treasurer was simpler," said Duncan Kellaway, a partner at law firm Freshfields Bruckhaus Deringer. "Now it is more complicated."

For treasurers in companies with overseas operations, the focus on cash flow and capex discipline has turned the spotlight to an area that was already one of treasury's biggest headaches. Repatriating trapped cash, or profits stuck overseas, is a complex task that demands more tenacity, and more interaction with the wider business, than ever before.

"Trapped cash has always been an issue for us but it has increased over the past three to five years because of problems in some jurisdictions around accessing dollars," explains Carl Burman, Head of Treasury at Danish shipping and energy conglomerate Maersk.

Large current account deficits and a shortage of US dollars have seen governments in Maersk's riskier markets like Egypt, Angola and Nigeria introduce FX controls, taxes and regulation to create barriers to repatriating profits. "We have business in challenging countries, particularly in Africa, and it is difficult to access the cash that we have generated in these places," says Burman.

The fact that emerging markets often produce the best growth has helped raise the importance of trapped cash within companies. For Burman, making the issue felt across the company, by arguing that the relentless focus on profits in times of straitened liquidity should be equally balanced by caring for cash, has become a priority. "We have to align our key performance indicators so that people within the organisation care more about cash balances, and are not focused just on measuring earnings," he says. "It is also about freeing up cash that already exists."

His team have found that the trapped cash challenge varies from region to region, and requires much research. Burman notes, "As long as the topic of cash management is high on the agenda we can tap resources that exist across the organisation, and draw on the wider organisation for support." He cites Maersk's business finance divisions as especially useful partners in finding solutions. He also has the full support of the boardroom. "We have good access to management, and better access than many other parts of the company."

Bond skills

Treasury is also evolving and adapting to a changing lending environment. Banks' new capital requirements mean they are lending less, and for shorter periods of time. This has left businesses having to tap different sources of funding. "There has been a shift towards seeking more capital markets debt amongst UK corporates because it offers a deeper pool of investors," says Kellaway. He notes that historically around 70% of UK corporates' borrowings used to be from banks in the loan market, but that this has dropped off. US corporates, in comparison, have traditionally borrowed more from the debt capital markets.

This contrasts with Asia where banks still have an appetite to lend, observes Singapore-based Damian Glendinning, Treasurer at Chinese PC giant Lenovo. "UK and US banks are reluctant lenders and loans are often dependent on them providing other corporate services," he says. "But Asian banks are still happy to lend as their main business."

The ability to access the capital markets is certainly driving treasury behaviour at Maersk. The company, which is in the process of separating its energy and transport businesses, issued a dual-tranche EUR bond and a three-tranche NOK bond in 2016, following on from two multi tranche issues in 2015. "We can't rely on bank funding to the same extent because banks are being regulated differently," says Burman. "We are a capital-heavy company so this means we are becoming more dependent on debt market financing. It requires knowledge and highly skilled professionals."

A key requirement of Burman's 15-strong team based out of Copenhagen, part of a wider treasury and risk department of 60, is managing financial risk to maintain the company's credit rating. Although the rating goes across currencies and isn't specific to US dollar debt, an investment grade rating is crucial to the company's ability to access the US dollar debt market where Maersk does the bulk of its borrowing. "You need people who understand financial risk. It is related to our US dollar credit rating from S&P and Moody's which gives us access to the debt capital markets in dollars. The importance of this is changing the way we work," he says.

Issuing bonds also requires proactive interaction with the capital markets. Successful issues call for imagination, and an ability for treasury to plan and forecast in advance. The focus could be on raising money for longer periods of time, or raising new debt while continuing to have existing debt in place. "In the current market it is more than just knowing that debt is due to mature, and issuing more," explains Martin Hutchings, also a partner in Freshfields' banking team. "Treasurers often will not want all debt to mature at the same time, as that presents refinancing risk. They will try to spread maturities to ensure that their company is not looking for a lump sum in one go."

Treasury also needs to be opportunistic and ready to take advantage of market conditions. "Issuing debt could be a liability management exercise, where a company will buy back debt and replace it with cheaper borrowing because the existing debt has a higher interest," says Hutchings.

Treasury's involvement in marketing bond issues can also be intense. If it is an established name, and the company frequently issues debt, treasury's input is small. But smaller organisations have to do extensive road shows that will involve large amounts of treasury time and expertise.

As companies increasingly tap the debt market, so treasury needs to forge strong relationships that allow visibility across the company. This means ensuring the company isn't doing anything that could jeopardise its credit rating or that could breach any of its existing covenants, in particular its financial ratios. "If a company is negotiating a loan agreement, banks will seek to impose various restrictive covenants. Treasurers need to know that no part of the organisation is doing, or is likely to want to do, anything that could breach those covenants," explains Hutchings.

It is also important that treasury knows what is coming down the line in terms of major corporate events such as disposals or acquisitions. Kellaway adds: "Treasurers have to go and actively talk to other parts of the organisation, both at inception of the financing but also as an ongoing risk management process."

FX management

"The decisions that treasury takes on hedging can make or break a company. We have a hedging policy in our operating rules, and how to manage the currency exposure is a key question," says Lenovo's Glendinning, outlining another evolving and growing treasury task.

Glendinning oversees an important and strategic hedging programme shaped around managing the FX risk that arises from a mismatch between costs and revenue. The computer giant has a dollar-heavy cost base given that many of its key suppliers are US companies, like the chip, hard drive and operating system manufacturers. Yet less than 30% of Lenovo's revenue is in the same currency, due to sales in China, Europe, Japan and other countries.

And FX risk can be just as dangerous for small and mid-market businesses venturing into new markets as it is for multinationals. A study by the Association of Chartered and Certified Accountants and Kantox, a foreign exchange provider, found that finance officers in SMEs do not usually understand, or sufficiently hedge, foreign exchange risk. Around one-third of companies sampled in 2012 reported that the amount of FX loss, or gain, had exceeded US$1m, resulting in a direct impact on profit margins.

In fact, FX management is such a risk that treasury needs more support from the board, argues Deloitte. According to the consultancy's 2016 Global Foreign Exchange Survey, corporate boards lack visibility of their company's current FX exposures. This gives boards a limited ability to challenge and guide FX strategy, and results in some companies being slow to measure the commercial effectiveness of their FX risk management activities. "The impact of FX management on profitability was tracked by less than half of survey respondents, and 21% did not measure performance at all," explains Karlien Porre, a Partner at Deloitte who leads the treasury advisory team and co-authored the survey.

It could help if boards empowered treasury to be more decisive. "Many corporations tie themselves in knots with bureaucracy and hierarchy when it comes to making a decision around FX," notes Jonathan Pryor, Head of FX Dealing in Investec's corporate and institutional treasury department. "It means the market has moved by 3% and the opportunity is lost. Decision makers need to be empowered to make the most of opportunities, yet many bang their heads against a brick wall and make no decision at all." He adds: "The ideal situation for us it to have the board review its hedging strategy once a year, and leave the day-to-day operations to treasury."

In turn, treasury needs to ensure much clearer communication with the board regarding FX strategy. Treasurers need "strong communication skills" to ensure the board "clearly understands" the risk treasury faces and how treasury activities add value to the business, argues Porre. "The fact that this communication often happens indirectly via the CFO further adds to this need," she says. "If a treasurer can't explain treasury matters succinctly to their CFO in 15 minutes, how would they expect the CFO to explain it to the Board in five minutes?"

Glendinning's response to the FX burden? Quoting the adage that managers should manage while the role of the board is one of oversight and governance, he believes that treasury has the prime responsibility for managing hedging programmes. While board reviews are more than welcome, and should be encouraged, there are potential issues. "Do boards always have the technical skills to review a hedging programme?" he questions. "There will often be a number of people on the board who do understand it and who have a qualified opinion, but a board member with, say, marketing experience will not. Boards should satisfy themselves that a process exists, and that it is being run competently. If there are indicators that it isn't, ask questions."

Get smart

As companies' demands on treasury change, so treasury skills are having to evolve. Today's treasury needs people with accounting backgrounds and financial market expertise, regulatory knowledge and, importantly, an understanding of where risk lies within a business. It is an expanding skillset echoed in the ACT's Strategic Treasury Report: 40% of respondents said they were spending more time on risk management compared to a year ago while 64% said their role was more varied than five years ago. Treasurers also reported that operations and controls have declined in focus in recent years.

Yet treasury teams remain small. According to the Nordea Treasury 2017 Survey, conducted by the Swedish financial services provider, the average team is now eight people, up from seven. The report noted that much of the growth in treasury for the largest blue chips has been "involuntary" and driven by a need for more compliance and reporting staff, rather than treasury's increasingly complex and crucial role. And the compliance mantle, treasurers point out, is not a strategic role.

"The financial regulation that we see is an inconvenience and cost rather than a strategic problem," says Glendinning. "It is annoying that it takes us six months to open a bank account, but the Board is not asking me about this. Although regulation around currency hedging is making it harder and more expensive, I am paid to manage this."

Technology to the rescue

Technological innovation is key to helping treasury improve efficiency and reduce cost alongside an expanding workload. Maersk is in the process of implementing a whole new treasury system in its largest IT investment in "a long time," says Burman. In smaller-scale innovation, his team now has software for monitoring and pricing derivatives and improving the company's hedging capabilities. Burman is also introducing software to help monitor bank fees, thereby boosting transparency. "We deal with quite a few banks and it is important to have fee transparency," he says. "Going forward we will work on solutions around electronic payments and supply chain finance too."

The treasury challenge is also helped by access to much more information than in the past, increasing market knowledge and risk awareness. "It used to be a case of treasury showing the board positions from an excel spread sheet," says Investec's Pryor. "Now, if a customer trades through us they can see analysis of their entire position. It allows much more informed risk management decisions; they can plot the next 12 months." It's a direction of travel that he predicts will see more departments execute and monitor their positions online and put together scenario analysis using banks advisory services.

Visibility

Treasury also needs clear visibility through the whole company. This helps the department negotiate with commercial teams if market conditions become more challenging, something UK treasury teams have had to do post-Brexit following the fall in sterling to a 30-year low against the dollar. "This was the kind of situation when treasury needed to be able to go to their commercial and sales teams and provide informed and rational arguments as to why costs have risen so dramatically," said Pryor.

Managing FX risk also increasingly demands strong relationships reaching out through the business, argues Deloitte's Porre. "Treasurers need to understand FX risk through their whole supply chain; they need to be able to say where their exposure arises, gauge the ability to pass it on and see what the competition is doing."

Ensuring visibility calls for soft skills like good communication, and a broader ability to persuade and motivate others. Technical and analytical skills are critical but treasury needs people with behavioural skills too – people who can think how does this matter, how does it drive behaviour and how does it impact the bottom line, argues Deloitte's Porre.

Conclusion

Treasury has grown in importance and influence since the financial crisis and is playing a more strategic role around fundraising, cash management and capital allocation. Yet it is worth bearing in mind that this trend is also relative to the financial health of the company. If sales are strong and growing, cash is coming in fast, receivables are collected quickly and margins are high, treasury doesn't have such a strategic function. "If a company is short of cash, the treasurer is powerful and important. In contrast, if it is a company which is cash rich, treasury is likely to be less central," concludes Glendinning.

Are you ready for the new FX landscape?

Following a number of recent scandals, the Bank for International Settlements (BIS) has outlined its new global code of conduct for foreign exchange with an aim to bring confidence and transparency back to the foreign exchange markets. The move will of course mean changes to the FX industry that will have an acute impact on how banks and corporate treasury departments interact.

Neill Penney

Managing Director, Trading

Thomson Reuters

In a recent webinar hosted by Treasury Today, Neill Penney, Managing Director, Trading at Thomson Reuters outlined what the new global code means and why it may be a good time for treasurers to take a deeper look into their FX activity.

The new code aims to establish principles of good conduct for the entire FX industry globally and whilst the code is not cast in tablets of regulatory stone, it will sit alongside existing national regulations. The code sets out to promote a robust, fair, liquid, open and transparent market applicable to the buy and sell side.

As Neill Penney stated: "The code is not regulation, but it defines conduct expected by regulators and regulators intend widespread adoption. This is the industry's last chance to write its own rule book."

Six key principles

The code of conduct is organised around six guiding principles as follows:

1. Ethics
2. Governance
3. Execution
4. Information sharing
5. Risk management and compliance
6. Confirmation and settlement processes

Of course, adherence is the key aim of the new code and in order for it to be as broadly applicable as possible, the code is written with proportionality in mind. Adherence is a public declaration of support and, whilst the exact form is yet to be determined, it may include:

- Public register
- Independent certification

Adherence is also based on an "all or nothing" approach; cherry-picking is not allowed.

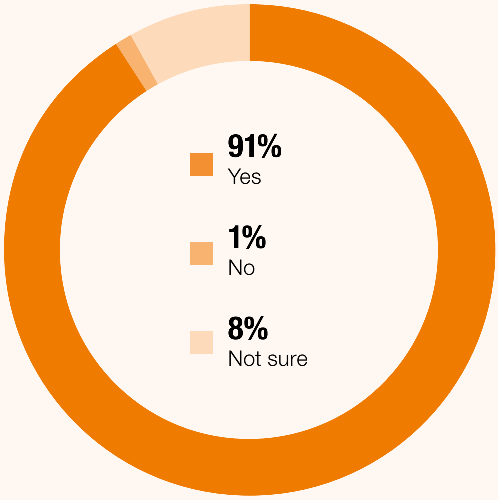
It may be a good idea to keep abreast of the new code as it becomes clearer and review your treasury policy and procedures manual to ensure inclusion if deemed appropriate.

The final publication of the complete FX Global Code is targeted for May 2017.

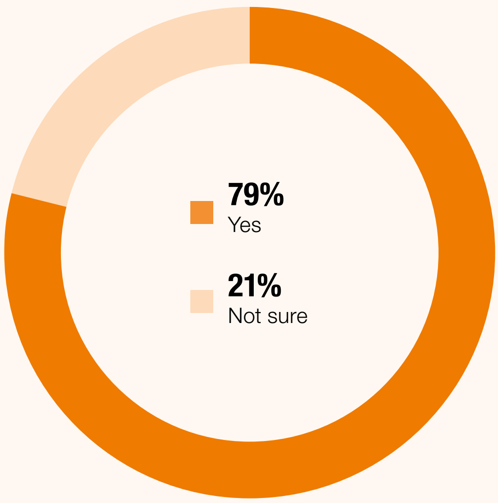
Poll results

During the webinar, which generated a great deal of interest from corporates, FX providers and banks alike, we polled the audience with the following two questions:

Will you expect your banks to be adherent to the code?



Do you feel it's important that the corporate treasury community is seen to publicly support the code through adherence?



Preparing for a corporate bond issue

Favourable conditions in the capital market could tempt more treasurers to consider issuing corporate bonds. What does the process involve, and what should treasurers bear in mind when embarking on an issuance?

Last August, Vodafone locked in record low borrowing costs for decades to come in two back-to-back sterling bond issues totalling £1.8bn. The celebrated borrowing made tapping the capital markets look an attractive option for treasury teams pondering how best to raise capital in the year ahead. "We do the vast majority of our borrowing in the bond market because we can get cheap, long-term finance," says Neil Garrod, Director of Treasury, Vodafone.

Over the past 20 years, different borrowing options have fallen in and out of favour. In the mid-90s it was banks, more than the capital markets, where UK housing associations went to borrow money, recalls Fenella Edge, Group Treasurer at The Housing Finance Corporation (THFC), which borrows from the capital markets and on-lends to UK housing associations.

"Bank lending was used to fill much of the borrowing needs of our sector. Back then the bond market lost popularity because banks offered more flexible terms and bond markets were viewed as expensive – our 11.5% bonds have just matured," she says in reference to a batch of mature THFC bonds which had yields at levels hard to imagine in today's low interest rate world.

Now it is a different story. The pendulum has swung in favour of the bond market as banks remain reluctant to lend long-term, while borrowing costs in the capital market remain at historic lows. For corporates ready to take the plunge and swap cosy banking relationships for refinancing risk and a global investor base, today's climate couldn't be better. It's an arduous process, but the benefits can be worth it.

Getting started

A corporation seeking to raise funds from a bond issue needs to tailor the offering to suit its own requirements, and ensure it is attractive enough to draw investors. A US private placement is a typical first step for a company expanding beyond bank finance for the first time. Available to both US and non-US companies, this market provides an alternative source of liquidity to the traditional bank market without the need for a credit rating or reporting requirements, which are generally needed in the public bond markets. The fact that public markets can close also makes public issues a more challenging debut.

The private US market comprises about 50 active investors, mostly US insurance companies, and is flexible. Issues range in size from less than US$100m to up to US$1bn; the market typically provides fixed rate US dollar debt in tranches of between three and 15 years, though longer maturities are available for certain issuers. "Private placements are sold to smaller groups of investors and as there is less expectation of any trading, they can be compared to the bank market," says Jeremy Froud, Managing Director, Head of UK Debt Capital Markets at Barclays, who says tapping public markets and the US dollar market are the typical next steps that follow on from a US private placement.

The amount a corporate wants to borrow – the size or face value of the bond – will also influence the type of issue. Indices apply minimum size constraints, so smaller bonds will not be able to access the bigger investor universe of an index. In the UK, a bond has to be £250m or above to be included in certain indices; in Europe it is €500m. But although its bond issues started small, THFC has still been able to access the index.

"We tend to issue bonds in small sizes like £100m," explains Edge. "These bonds are not benchmark size and not index eligible, but we then add to them, tapping the bond over and over again so it grows. We will have a bond of say £500m but that will have been achieved in four or five chunks."

It is worth noting that treasury teams require board approval before they set to work. Some corporations go to the board on a case-by-case basis for approval, but at Vodafone borrowing is approved annually.

Refinancing risk

Getting the maturity right is another consideration that will vary from organisation to organisation. Vodafone's key priority last August was to reduce its refinancing risk by lengthening the maturity profile of its debt when rates were low. "We were able to lock in long-term interest rates of 35-40 years at 2.6% on a euro equivalent basis before tax deductibility," says Garrod. "Our post-tax borrowing cost is around 2% for 40-year money. The future economic environment is uncertain and the less frequently you go to the market to refinance, so you reduce refinancing risk."

The maturity a corporate chooses will also depend on the purpose of the debt. If the bond has been issued to provide finance for a specific project, treasury may want to term the bond to match the point at which the project will begin to generate cash for the company. "It is difficult to see what a high-tech company will look like in 30 years, so you might see shorter maturities here. But a utility wanting to finance long-term infrastructure is likely to require long-term debt," says Rory Renshaw, a Managing Associate at law firm Linklaters. Companies will also want to avoid different bond issues maturing at the same time.

Get rated

A key decision before deciding to issue in the bond market is whether or not to obtain a rating. A rating is generally required for public bond issuance and helps open the door to a wider investor universe. "A credit rating is used by fund managers to measure corporate performance and most indices only include rated bonds. Investors in public bonds don't want an off-index bet by buying on an unrated basis," says Barclays' Froud.

"A credit rating is a measure of the likelihood of the company defaulting during the life of the bonds. Any credit rating, and particularly if it is investment grade, will increase the number of investors able to invest in you," says Renshaw. An issuer with a high credit rating will pay a lower interest rate than one with a low credit rating; the higher the rating, the greater the investor appetite.

Acquiring a rating takes six to eight weeks and involves "SWOT analysis of your company" by the ratings agency. It will examine "in minute detail", explains Froud, how the company compares to peers, as well as its historical performance, management structure and aspirations going forward, paying particular attention to any acquisition programmes that could put the credit rating under pressure.

The credit rating is also a vital piece of the jigsaw because it sets a company's refinancing risk. "Every investor will buy a AAA but not every investor will buy a BBB," says Garrod. Treasury teams have to weigh the increasing cost of capital as the amount of debt grows and investor appetite slows, with the fact that debt is tax deductible.

At the centre of this balancing act lies the credit rating. "Vodafone is likely to have debt forever," says Garrod. "So, debt to us is permanent capital. Permanent capital is like equity, but needs to be refinanced. The better the rating you have, the lower the refinancing risk."

Staying local

What happens if the credit rating is downgraded? It is not always a disaster, as the experience of THFC, which runs one bond programme that is guaranteed by the UK government, reveals. When ratings agencies downgraded the UK's credit rating after the Brexit vote, the rating on THFC's guaranteed debt fell too. However in this case it hasn't made much of a difference.

"The lower rating really has been by-the-by," says Edge. "For our last bond issue we achieved the tightest spread over gilts ever done." Tight, or narrow spreads, reflect a cost of borrowing that is close to the sovereign and therefore relatively cheap. Edge adds: "We are a good match with the institutional market because they like investing in long-term residential property assets. Investors are also keen on long-dated sterling assets, and anything they can pick up over gilts is attractive." Low investor returns from government bonds have helped create demand for riskier corporate debt that gives a better return.

It is heartening news for treasury teams mulling issuing debt in the UK, but worried about the health of the UK sterling market. Indeed, Vodafone's August issue was its first since 2009. That was the same year that UK companies had 50% of their outstanding corporate bonds denominated in sterling, according to research from Bank of America Merril Lynch. This has now dwindled to 28% as the euro and the US corporate bond markets have lured UK companies away with more favourable conditions.

> "Vodafone is likely to have debt forever. So, debt to us is permanent capital. Permanent capital is like equity, but needs to be refinanced. The better the rating you have, the lower the refinancing risk.
>
> Neil Garrod, Director of Treasury, Vodafone

Now the Bank of England's 18-month £10bn bond buying programme begun last year is also boosting the market, believes Froud: "The Bank of England programme has put the sterling market back on the map. It shows the UK is open for business in a post Brexit world."

Currency conundrum

Corporates can issue debt in any currency; deciding which is therefore another consideration. Organisations often choose the currency and location of their issue according to their revenues streams and where they do business. THFC issues all its debt in sterling because that is the currency required by the housing associations it lends to. Others may have acquisitions to consider. "If a UK corporate has just bought a company in the US, it could make sense to issue in dollars," says Froud.

Vodafone, which trades its shares in sterling but uses euros as its functional currency, both runs a euro medium-term note (MTN) programme, and has a US shelf programme where it borrows in dollars to access the deeper US market. But for many, price is the driving factor.

"We issue debt in any currency, making the decision according to which is cheapest by comparing all borrowing costs when bought back into euros. It is basically a question of which currency is providing the best credit spread," says Garrod. Corporations typically swap the issue currency into the currency it wants at the same time as the bond issue, in a strategy based on the overall cost being lower than if it had raised funds in the swapped currency.

Importantly, the MTN programme does not limit a company to borrowing only in euros. A euro MTN bond could, of course, include bond issues denominated in euros, but it could also be in any other currency from yen to swiss francs.

"Timing the market around strong demand is more important for corporates with a lower rating than for those with higher ratings. And teams have to anticipate any sudden macroeconomic news that could affect book building, the process when banks market the bond, taking orders and 'building a book' of demand.

Corporates also issue in the currency where demand is strongest, and in many instances this is in the US. "We go where the market is deepest," says Garrod. "Multi tranches do happen in Europe, but the US does them on a daily basis."

Microsoft, which kicked off 2017 by borrowing US$17bn, is just the latest example. US investment grade, or low risk, corporate bond issuance reached US$1.2trn in 2016, breaking annual issuance for the sixth year running, according to IFR data. In contrast, in 2015 there was US$360bn of new euro-denominated corporate bonds sold in Europe.

Picking the team

The right team is another important consideration, particularly if markets are challenging. The banking teams behind Vodafone's bond issues are drawn from the company's relationship banks. "We have a backstop overdraft facility with a banking syndicate," explains Garrod. "Although we have never used it, we could borrow from these syndicate banks if we needed to. The banks prepared to lend into this facility are our relationship banks and the quid pro quo, or the price of that subsidised balance sheet availability, is that they get to bid for our ancillary business." Ancillary business accounts for a whole suite of banking services from FX transactions to currency swaps and, of course, bond sales.

A corporate could also opt for an independent advisor who is not acting as book runner, or providing services. "Some treasurers make their own decisions, others prefer advice," says Froud.

Banks are also important for their role as underwriters of a corporate bond issue. This is not a guarantee of the successful execution. If the bond doesn't clear, the bank doesn't appear as borrower. Rather it refers to a commitment from that bank that in the unlikely scenario an investor says they will buy bonds but then doesn't 'settle' – ie stump up the cash – then the bank comes in.

Other support services include a paying agent, who acts as an intermediary between issuers and investors, and a trustee, who is a spokesman for the bondholders. The team of investment bankers and lawyers doesn't come cheaply. Banks charge a percentage of the issue and a legal team could range from tens to hundreds of thousands of pounds, says Renshaw.

Next comes the roadshow, when corporates travel the country selling the company to analysts, fund managers and potential investors. "The roadshow will quickly reveal whether the banks have got their pricing right," says Froud. It is also a time when corporations are grilled on acquisition programmes, particularly plans to finance them through debt. Acquisitions may worry investors and "companies will need to put their vision across."

For seasoned issuers like THFC, roadshows are almost a formality. "We may have a roadshow for investors, one-to-one or in a group, but there is not always a roadshow because investors know us well," says Edge. At THFC, bond issuance has become a slick and well-worn process. The "documents are on the shelf," drafting takes two to four weeks and the lead managers know the business and the sterling market well.

Herding cats

Timing the issue is the next priority. Vodafone has an eye on the market long before its bonds are due to mature. "We are an opportunistic borrower, not a calendar borrower," says Garrod. "We think about when the right time is to refinance based on when credit spreads are low. We would happily refinance up to a year ahead of maturity if the market gives us a better level of financing." No surprise then that last August, Garrod and his team seized the opportunity around the government's efforts to boost the economy post-referendum, such as relaunching quantitative easing and buying up to £10bn in corporate bonds, to secure the lowest cost of borrowing possible.

Timing the market around strong demand is more important for corporates with a lower rating than for those with higher ratings. And teams have to anticipate any sudden macroeconomic news that could affect book building, the process when banks market the bond, taking orders and 'building a book' of demand.

At THFC, timing bond issues is driven by the needs of housing association borrowers, rather than by the market. Any bond issue involves gathering a critical mass of two or three housing associations ready to borrow between £50-70m. "We don't issue debt and then sit on the proceeds," says Edge. "We have to get our borrowers to come to the market together and it is quite complicated. We call it herding cats." It means she is unable to time issues around market opportunity – although if she does have her borrowers ready, and sees an opening, she will make sure the borrowers are aware and able to come to market quickly.

At the end of the process can treasury sit back and relax? For Garrod, his eye is already on the secondary market, where investors who bought the primary issue go on to sell to other investors – and the next bond issue. "You want bonds to trade well in the secondary market because it encourages investors to participate in the next issue," he concludes. "On the other hand, if they trade too well it means you've left a lot of money on the table!"

Taking over the bond market

In the second instalment of our Fintech Focus series, Treasury Today takes a look at Canadian start-up, Overbond. Their CEO, Vuk Magdelinic, explains how the company looks to revolutionise the primary bond issuance process and details what advantages this could offer to corporate treasurers.

Vuk Magdelinic

CEO

Overbond

Tell us a bit about yourself and your background. How did you get into fintech and why did you want to build a solution for the capital markets?

Before founding Overbond, I spent over ten years in capital markets and technology. This included leading numerous large digital transformation projects at global banks including Deutsche Bank and BNY Mellon. I also have experience working on the trading floor for CIBC Fixed Income in Toronto trading structured products. Through all these experiences I have noticed numerous inefficiencies in the financial world and especially in the capital markets and the primary bond origination process.

What makes fintech such an exciting space and what do you find most interesting about it?

Innovation in the securities market is not only long overdue, but essential in driving a more efficient and collaborative bond issuance process. It's very important to see a fintech start-up delivering on its vision for a completely digital bond market that benefits issuers, dealers, and investors. It is incredibly rewarding to transform what is now a largely manual, legacy system so that all participants in the bond market benefit from the increased transparency and efficiencies.

How did you find the transition from the consulting/banking industry to building a fintech product?

The transition from the client focus perspective was really non-existent, I continued to think about the same type of clients and how we can bring value to them by solving their core operational, technology or process problems. In that regard, being laser-focused on client value, fintech providers and consulting providers are very similar.

Does regulation pose a challenge to fintech?

Regulation is actually helping drive adoption of fintech solutions in the primary bond issuance space. MAR regulation out of Europe in particular and its extraterritorial implications to institutions across the larger global capital markets community mandates higher scrutiny in the 'sounding' process – which is the pre-deal launch communication that Overbond specialises in. To ensure compliance with MAR across the global dealer community, the Overbond platform streamlines deal and non-deal related communication.

How do you expect fintech to develop, especially in the corporate space, in the years to come?

Transparency Market Research reported that the market for predictive analytics software will reach US$6.5bn by 2019. That's because predictive intelligence can increase accuracy in decision-making, and subsequently profitability. The market is already showing indications of significant success. Unsurprisingly, innovators developing applications within financial services are growing bolder in their efforts to perform tasks that may have seemed impossible just a few years ago.

Where do you think that fintech can have a real impact for corporate treasurers?

There will be many areas where fintech can deliver significant benefit to treasurers, and we believe that improving how they monitor their borrowing programme and how they undergo analysis and due diligence for new bond issuers is one of the most exciting. By digitising the entire deal execution process, issuers can get to market faster to take advantage of favourable market timing and access a broader investor base and we really feel this will impact treasurers in the most positive way.

This will help reduce the cost of new issuance by standardising all aspects of deal execution, drive operational efficiencies by reducing the issuance time and provide an opportunity to optimise cash management by enabling opportunistic offerings. All these aspects directly help treasurers' mandates.

What is more, issuers can also manage funding targets with dealers and investors, allowing for a more vibrant and efficient primary market process. Issuers can access valuable market insights to make sound funding decisions and build stronger relationships with their investor base.

Company timeline

December 2015

Founded.

April 2016

Overbond was introduced as the first end-to-end, two-way pricing communication tool for bond issuers and dealers.

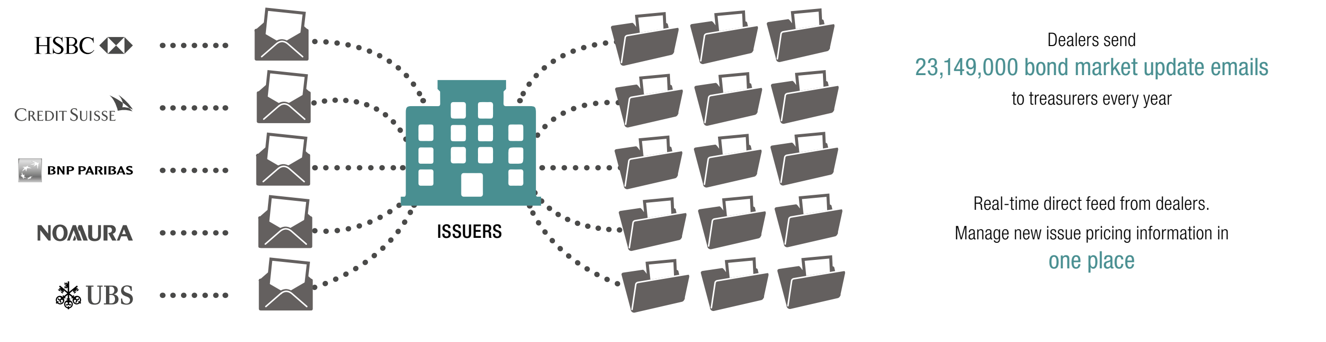
June 2016

Overbond closed a US$7.5m seed financing round with Morrison Financial Services Ltd.

October 2016

H2 Ventures and KPMG's annual Fintech 100 Report named Overbond as one of their 50 emerging fintech stars of tomorrow for 2016.

Digitally connecting the bond market



Source: Overbond

Digital bond origination in action

The bond issuance process is outdated and is ripe for change, at least that is the view of Vuk Magdelinic, CEO at Overbond. And his company is looking to bring the industry into the 21st century by making the space more digital, transparent, and secure.

"Fixed income capital markets, and more specifically bond origination within it, is one of the few asset classes still relying on time-consuming, manual processes," says Magdelinic. "Emails, spreadsheets, and phone calls are still the main channels for information exchange for issuers, dealers and investors, with dealers sending upwards of hundreds of millions of bond market update emails globally and treasurers spending hundreds of thousands of hours managing bond market information per year."

As the first end-to-end new bond issuance platform, Overbond is looking to transform how global investment banks, institutional investors, corporations, and governments connect by digitising and streamlining all aspects of primary bond origination workflow.

Coming together

The Overbond platform facilitates improved digital connectivity with secure real-time communication among market participants, creating an extensive dealer, issuer and investor opportunity network. In addition, Magdelinic notes that the platform provides advanced data analytics and data visualisation as well as end-to-end digital execution capabilities. "This workflow benefits everyone in the primary bond market through higher transparency, optimised price discovery, and investor diversification – all while reducing infrastructure and transaction costs for issuers, dealers and investors," he says.

The bond market is a traditional market which to this day relies on legacy, manual processes. In recent years, there has been rapid growth in global bond new issuance, thanks to the low yield environment. Meanwhile, due to increasingly stringent regulations following the financial crisis, dealers' ability to make the market has decreased significantly, leading to overall secondary market illiquidity.

"Secondary market liquidity or frequent trading activity as we know serves as primary proxy to pricing new bonds," says Magdelinic. "In the situation where secondary market trades that could serve as benchmarks and main confidence builders around pricing are very rare, the debt capital markets calls for the adoption of innovative technology like Overbond. It can help market participants build confidence through digital processing of information, managing relationships with a larger number of investors and issuers, and executing transactions more efficiently."

Issuers can also expect the platform to increase their exposure to the investor base, delivering diversification, better access to capital and "stronger relationships with the providers of capital." The latter could be key in allowing improved price discovery, claims Magdelinic.

Building it up

With a growing client base of more than 100 institutional clients, including some of the largest corporate bond issuers, dealers and investors, Overbond plans to continue building partnerships to allow greater efficiencies throughout the bond issuance process.

Magdelinic believes that the corporate treasury community, in particular, will benefit from the Overbond platform on multiple levels. "For instance, treasurers can rely on the data-driven relationship management module to optimise dealer coverage and expand the investor base."

Furthermore, Overbond provides corporate issuers with a secure and regulatory compliant electronic communication channel to better gauge market demand with investors. "This can lead to the better cost of funding, optimisation of the entire borrowing programme, more opportunistic issuances and more frequent issuance mandates," says Magdelinic. "Treasurers also have the ability to instantly convert indications of interest into a deal, whether it be a private placement or public offering."

November 2016

Overbond was selected as a CIX Top 20 Company. In the same month, Thomson Reuters announced a global partnership and fixed-income market data integration with the Overbond Platform.

December 2016

DBRS Credit Ratings was integrated with the Overbond Platform, providing market participants with valuable credit rating information and portfolio investment data analysis.

January 2017

OverbondX was launched – an integrated Deal Execution module within the Overbond platform. OverbondX enables issuers of any size to digitally facilitate execution of both private placement and public offerings.

February 2017

Overbond announced its launch in New York.

Mastering accounts receivables

Optimising accounts receivables has traditionally proved challenging for the corporate treasurer. However, the last couple of years have brought new opportunities for efficiency and automation. What steps should treasurers take to overcome the challenges of AR optimisation and how can innovative new tools help them achieve this?

Ireti Samuel-Ogbu
EMEA Head of
Payments & Receivables,
Treasury and Trade Solutions,
Citi

John Walsh
EMEA Head of Domestic
Payments & Receivables,
Treasury and Trade Solutions,
Citi

Corporate treasury departments have long been under pressure to improve working capital metrics. The easiest and most practical area to improve has typically been the procure-to-pay side of the equation. Treasurers have therefore tended to focus on this area, centralising, streamlining and driving efficiency across the accounts payables (AP) process.

The same cannot be said for the order-to-cash side of the working capital equation, which has proved a notoriously complex area to centralise and automate. With many treasury teams and shared service centres (SSCs) already short of resources, accounts receivables (AR) has become increasingly burdensome as considerable time and effort is tied up in reconciliation and cash application processes. To alleviate this, some corporates have drafted in local teams to handle reconciliation activity. Indeed, Citi Treasury Diagnostic Research highlights that approximately 50% of the bank's clients manage receivables processing/cash application at the country level. But there are questions as to how sustainable this method is.

Corporate treasury teams are recognising that this is the case and as Ireti Samuel-Ogbu, EMEA Head of Payments & Receivables, Treasury and Trade Solutions at Citi comments, treasurers are becoming increasingly focused on "speeding up and building efficiency into the order-to-cash cycle". It is an intelligent move because even minor improvements can have a multitude of benefits including significant cost savings, freeing up credit lines and enhanced working capital.

How, though, can the complexity of streamlining AR be overcome and what tools are available to enable treasurers to realise the benefits of AR optimisation?

Barriers to efficiency

Before analysing the strategies and tools available, Samuel-Ogbu says that it is important to understand fully the challenges that stand in the way. These challenges are interlinked, but perhaps core to many companies' struggles is the disconnect between the settlement and invoicing process. "This disconnect means that it is often not clearly apparent who has paid and for what," says Samuel-Ogbu. "So from an accounting perspective the money is unreconciled."

This disconnect exacerbates the second issue faced by many corporations: a lack of straight through reconciliation (STR). Samuel-Ogbu highlights that the AR process of many corporates is highly inefficient, with teams of people required to match receipts to AR ledgers manually and deal with exceptions. This is often driven by a lack of data standardisation through clearing, truncation issues and inefficient client payment behaviour.

Indeed, as companies expand their geographical footprints around the world, the challenge only becomes more acute. "Even though we are in an era defined by digitisation and innovation, we must remember that in the vast majority of countries, especially in the emerging markets, cash and cheques remain king," says Samuel-Ogbu. "Cash, by default, has to be manually managed and this adds risk, time and inefficiency to the AR process."

A further issue is the large number of bank accounts and banking partners that corporates may adopt during global expansion. "Collecting receipts in multiple currencies is a challenge in itself. But if you overlay that with a multitude of accounts with different banks, that just adds to the cost, complexity and lack of standardisation across the AR process," says Samuel-Ogbu.

Going digital

Given the broad scope of these challenges there is, unfortunately, no silver bullet. However, the interlinked nature of the obstacles does mean that solving one problem opens the door to solving another. As organisations of all shapes and sizes increasingly shift their business models onto digital platforms, treasury teams are being presented with opportunities to remove paper from AR processes – the first step when looking to optimise this area.

"A number of platforms have been developed that help digitise paper invoices, for instance," says John Walsh, EMEA Head of Domestic Payments & Receivables, Treasury and Trade Solutions at Citi. "Whilst creating some efficiency, it only solves part of the problem. The invoice flow is still disconnected from the settlement of the payment, meaning that manual reconciliation still has to take place." Cash and cheque receipts also warrant manual reconciliation.

The need to look beyond 'traditional' payment methods is a must for corporates looking to streamline AR. "This goes beyond simply being an efficiency play," says Walsh. "Offering digital collection channels and managing receivables more efficiently potentially offers the business, especially as it moves to online channels, the opportunity to improve its sales and customer experience."

Even in those instances where it remains impossible for cash to be completely eliminated, Citi is working hard to ensure companies can still streamline their AR processes. "In the Middle East, Africa and Eastern and Central Europe we are piloting a solution that enables our corporate clients to deposit cash they have received into a machine on their premises," says Walsh. "This provides our clients with a 'digital' experience because the cash deposit is instantly shown in their accounts along with the information they inputted around the payment."

Bringing it all together

Whichever method the treasury department adopts to switch from paper to electronic receipts, the result is the opportunity to leverage a host of solutions that can help streamline and automate AR. Virtual accounts are a powerful tool in this area and can help treasurers rationalise the number of physical accounts held, as well as addressing AR and reconciliation issues.

In the case of Citi's offering, Samuel-Ogbu explains that the solution works by using an automated payer identification service that begins with the bank assigning unique account numbers to its client's payers. The individual account numbers can then be created within the ERP system for all the client's payers. These 'virtual accounts' are shared with the bank for identification purposes. "Payers can then initiate payments to their virtual account number, which Citi will process and automatically link to the client's real account number," Samuel-Ogbu says. "This is then credited with the payment and identifies who the payer is, which helps the reconciliation and cash application process."

This goes a long way to solving AR issues for Citi's clients. But to further enhance the solution, the bank has also developed its unique AR matching service that overlays the payer identification tool. The solution consolidates payment data in an electronic report and uploads it directly to the client's ERP system, which auto matches the data and highlights any exceptions. As well as accelerating collections, the solution eliminates the need to match and manage receivables manually.

"If you pair these solutions together then you have an incredibly powerful tool that automates the matching of the invoice and settlement – the key issue when dealing with reconciliation," notes Walsh.

Linking trade finance: value add

The potential for treasury to add further value does not stop there, however. Citi's focus on this area has seen the bank find innovative ways to add further value to what its clients are doing. "When discussing virtual accounts these are often talked about as being the zenith," says Samuel-Ogbu. "But what is often overlooked is that further improvement to the working capital cycle can be sought by overlaying a virtual account/receivables matching solution with trade finance tools."

When it comes to speeding up DSO, Samuel-Ogbu adds, "having the ability through these solutions to demonstrate to the bank that you know exactly who is paying you and for what, enables you to use discounting more strategically. This really transforms the AR process from a burdensome task to one that can add significant value to the bottom line."

The time is now

For the many treasury professionals who have previously struggled to solve AR issues, the promise of these solutions may be viewed with some degree of cynicism. Walsh can understand this: "It has only been in the last one to two years that all of these elements have come together to create a true value-adding proposition for our clients," he says. "Before now there were still issues that meant adopting similar solutions required a little too much work."

But with the solutions now available in 40 markets across EMEA and Asia, Samuel-Ogbu states that "now is the time for treasurers to begin taking advantage of what is on offer". Working with a bank that has a global network can be "particularly advantageous" as well, she says. "The fact that Citi has local capabilities in over 90 countries means that we are able to handle local collections for our clients, feed these into our reconciliation tools and then provide a consistency and richness of data back to the corporate treasury and SSC."

Samuel-Ogbu also states that Citi's global footprint gives the bank a distinct advantage when developing further solutions for clients operating globally and receiving in multiple currencies. "We are exploring a centralised collection solution where our clients can receive funds in multiple currencies and then select these to automatically be converted into their operational currency – removing further complexity from the AR process."

Treasurers may also be interested to hear that Citi's focus on AR doesn't stop there. The bank is actively developing a number of different solutions, including evolving its virtual ledger solution. It is also exploring how APIs can impact this space and developing a consolidated reporting tool that corporates can use to manage all their receipts.

Finally, the proliferation of faster payment schemes around the world may provide further opportunities for corporates. "We are exploring ways that we can provide our clients with an instantaneous collection mechanism along these rails," concludes Samuel-Ogbu. "It could be revolutionary, watch this space."

Big Data

We keep hearing about Big Data and how it can be used to drive smarter decision-making. What practical steps can a treasury department take to begin to leverage Big Data?

Jose Franco

EMEA Product Executive, Treasury Services

J.P. Morgan

Technology innovation is reshaping financial services. As a result, the value proposition for payments is expanding and evolving. Banks are transforming how they engage with companies, what solutions and services they deliver, and how they deliver them. The expanded value proposition is helping corporate treasurers provide a new level of value and bottom line impact.

Big Data is critical to this. Technology enables banking partners today to analyse vast amounts of data aggregated from across diverse sources, synthesise the data, identify patterns, and distill meaning to support corporate treasurers with actionable insights. Data intelligence can enhance tactical and strategic execution and when used effectively, will drive improvement in the underlying business model.

Getting better visibility on cash flows is one well-known aim of digitisation but, importantly, new digital payments channels for consumers such as e-commerce and mobile are offering treasurers the opportunity to get far richer insights. Treasury will have greater and timelier access to vast quantities of data and more importantly, a deeper understanding of what that data means.

This data will allow treasurers to become much more strategic in creating actionable insights for their business. One example is delivering better forecasting on a real-time basis as the timeliness of payments and collections improves, with "track and trace" expanding the visibility of payments and collections. In the card space, mining spend data obtained from the business can be married with payments data obtained from your department or bank to surface insights that can be used to develop compelling offers for cardholders that will increase loyalty and revenues.

Some practical applications of Big Data include:

- **KPIs** – Corporate treasurers get a lot out of peer and performance benchmarking. This can include points of efficiency such as a comparison of a company to industry STP rates or average transaction costs.
- **Fraud detection** – Identification of unusual activity or patterns can help to uncover and prevent fraud attempts. This has tremendous value in an environment of increasingly sophisticated cyber threats and fraud.
- **Analysis and working with banking partners** – Payment processing, managing idle balances and overdrafts, transaction costs and FX exposures are just a few of the many areas of information that can yield intelligence to improve treasury practices.

Building for Big Data means building for flexibility and future needs. It is important to consider the value of data points, the frequency, format and application. The data itself also needs to achieve a specific treasury objective, which remains focused on maximising shareholder value by optimising capital efficiency and managing liquidity, currency and economic risks.

Olle Malmgren

Executive Director, Treasury Solutions Americas, Transaction Banking

Standard Chartered

Corporates generate and store huge amounts of data about their business flows and it is increasing exponentially. This data comprises everything from structured data in databases to unstructured data such as video and pictures.

The challenge in the past has been the ability to process large volumes of data from multiple sources quickly for timely informed decision-making. However, a huge reduction in data storage costs, powerful analytical tools and artificial intelligence is making it possible to not only mine huge pools of internal and external data but to also define cause/effect relationships across elongated business processes which involve multiple business functions and internal/external stakeholders.

There are a number of areas where the treasury could benefit from more timely, accurate and comprehensive data, especially when artificial intelligence is added, such as behavioural analytics

The most obvious area would be forecasting, where more accurate information about payments and receipts in near real-time would significantly help the treasurer to plan funding and exposure management.

Big Data could also combine the data from both the financial as well as the physical supply chain, giving the treasury a whole new dimension of information. This, in turn, could help in the cooperation between treasury, procurement and sales so that the treasury evolves from just managing the funding needs and exposures created by the business to proactively working together with them to optimise these functions.

Treasury can work with the supply chain organisation to optimise working capital management by using Big Data to increase visibility across the supply chain. It can help the supply chain organisation to optimise procurement, inventory management and distribution based on real-time supply chain information.

For example, treasury can proactively manage expected bottlenecks in working capital to speed up the release of goods to distributors/buyers or provide additional finance to suppliers who need additional working capital to increase production of critical components/products. Of equal importance, the impact on sales revenue or time to market can be quantified and measured in terms of ROE on the additional capital deployed.

The supply chain organisation can also more quickly respond to changing demand levels, reducing the days of inventory outstanding (DIO) and improving the cash conversion cycle (CCC).

Other areas where Big Data could add value is on counterparty risk management, where behavioural analysis could help the corporate to detect buyers that might become bad credit risks. Today's tools are capable of relating subtle changes to buying and payment patterns to increased levels of financial stress or default.

Big Data has also been used to detect fraud in the business. This can be fake invoices for example that data analyses comparing income with liquidity could detect.

In general, Big Data can deliver better trend analysis since the mix, breadth and amount of both real-time and historical data that can be covered is much greater than a TMS can cover.

In order to become part of any business-wide Big Data initiatives, treasury must clearly define the outcomes they wish to achieve from the process and what data is needed in order to achieve expected results. The list could include; expected information, reason for the report, benefit of knowing what data should it be using, output format, accessibility and priority.

It is also important to make sure the data storage, analysis and sharing is fulfilling ethical and regulatory requirements.

Big Data could well be the enabler that will allow treasury to become the truly strategic business partner that so many treasurers aspire to.

Steffen Diel
Head of Treasury
SAP

Leveraging Big Data can add significant value to treasury departments, but there are numerous challenges to unleashing its power. In a volatile environment, treasurers need broad insight – historic, predictive and real-time – to take appropriate decisions. However, the structured storage, access to and analysis of large amounts of data from a vast number of sources present technological obstacles that need to be overcome before one can explore new opportunities.

In treasury, we are consuming all kinds of structured data from various data sources, not limited to a single system environment. Information is derived from ERP, a treasury management system, a Business Warehouse, FX Trading Platforms, eBanking systems and many other specialised systems. Every application has its own structure of data and that makes it difficult to create a single source of data that one can analyse for smarter and faster decision-making.

Moreover, we might want to add the analysis of unstructured data to our current approach that relies on structured data like forward rates or GDP and unemployment rates. So, the question is, what is the technological foundation for a valuable use of Big Data?

SAP has created the HANA Platform which is based on in-memory technology. Bringing together transactional and analytical data in one in-memory database enables a very fast data insight and on-the-fly scenario analysis. The platform also acts as a data warehouse, integrating data from a wide variety of sources that may come from inside the company or outside.

Based on such a platform, treasury can achieve better control and visibility over the entire treasury-related value chain. The data consumed can be expanded to the complete portfolio of company data and external data can equally be added to the analysis. This combination is instrumental to help manage the exposure of a company and to enable new dimensions of business insights such as:

- Cash management – improving cash flow forecasting by leveraging historical data in combination with actuals and planning data resulting from various sources to improve forecasting accuracy. As an additional element, payment and buying behaviour can be added in order to perform predictive planning and 'what if' scenarios.
- Analysis of unstructured data derived from social media can be used as trend or early warning indicators for market developments, eg currency movements. Analysis of unstructured data received from information providers can be combined with structured data, eg counterparty risk management, to allow for a more comprehensive picture of what is happening.
- Identification of patterns where business data correlates to certain financial outcomes, ie country-specific data that correlates with the development of days sales outstanding (DSO).

Next question:

"What challenges have corporate treasurers based in the Nordics and Baltics faced in the last 12 months and what solutions/strategies are they using to overcome these?"

Please send your comments and responses to **qa@treasurytoday.com**

Global economy picking up

Despite the turmoil caused by President Trump's 'America first' stance and the controversial measures announced in his first few weeks in office, the global economy seems to be gaining momentum.

The global economy has been boosted as countries around the world have posted improved economic figures of late, highlighting that Trump's 'America first' attitude has not immediately led to fierce countermeasures. However, despite this positive news, there are signs that inflation may start picking up as well. If this happens there are two likely directions for the global economy:

- Firstly, it can be argued that, given the tight labour markets, higher inflation will lead to accelerated wage increases.
- It is also possible to argue that, due to high-level international competition and low productivity growth, it will take time for businesses to give in to higher wage demands. This has been evident in Japan and Europe so far and has led to lower consumer purchasing power. If this happens elsewhere economic growth will soon fall back again, as will inflation.

Monetary transition imminent?

It seems that the central banks are leaning towards the first scenario at present. By factoring in the fear of US protectionism harming global trade and therefore growth, they are acting cautiously.

However, there is no longer a great deal of room for policy errors and if growth keeps turning out better than expected, inflation, which has bottomed out, will increase further. This may not happen rapidly at first, but any increase will likely be sufficient for the Bank of Japan and the ECB to start downscaling their enormously loose monetary policies.

As far as Europe is concerned, something else needs to be considered: the important elections taking place this year. There is great concern that populists will emerge powerfully in Europe, which in turn could lead to the collapse of the European Union and the European Monetary Union. The uncertainty that this creates pushes down growth and leads the ECB to keep pursuing its very loose monetary policy for the time being.

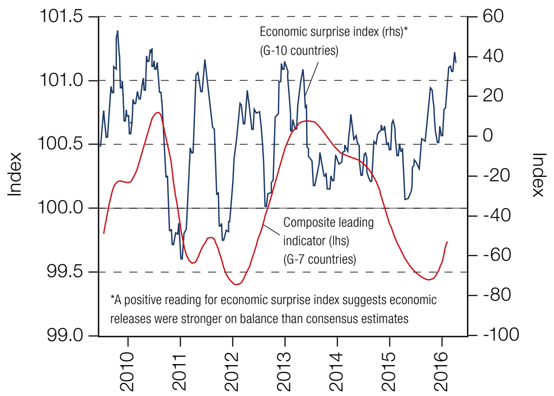
That being said, as it looks now, we believe concerns about the outcome of the elections are exaggerated. We actually see the populists securing a substantial share of the votes, but we do not expect them to gain a majority. As a result, we expect the constraining effect on the European economy and ECB policy to disappear in the course of the year. It therefore cannot be ruled out that growth will be slightly better than expected and inflation will be slightly higher than expected over the course of the year. This could lead to a fairly fundamental change for the markets with regard to monetary conditions.

Although the Fed is already gradually tightening monetary policy, the very loose policy of the Bank of Japan and the ECB offsets this. However, if the latter two gradually start moving towards tightening as well, there will be an end to an eight-year period of excessive money creation and abnormally low interest rates. Given that these elements actually represented the key engines behind the financial markets throughout this period, a significant price reaction will be likely. In fact, the markets are already seen to be reacting very tentatively to such a scenario.

Long-term interest rates have largely retained their increase of the past months and are inclined to increase further. However, what is very striking is that inflation has been increasing significantly faster than interest rates of late – perhaps because the markets too, just as the central banks, assume higher inflation will push down growth again. So far, this phenomenon has resulted in real interest rates declining, which actually boosts growth. Better-than-expected growth will soon lead to a worldwide monetary policy being tighter than the markets have become used to. Hence the increase in share prices is beginning to stagnate. Of course, the latter is also due to all the uncertainty caused by Trump.

Europe is also starting to adopt a more cautious approach to the bonds of weaker countries. On the one hand, this is because of the warnings of the IMF with respect to Greece as well as political uncertainty, but it is also due to the possibility of German inflation starting to increase too fast. Berlin is likely to exert increasingly more pressure on the ECB to reduce the purchasing of European bonds. However, once this occurs, there will be mistrust of Italian bonds once again. Hence, interest rates in the weaker countries have come under more upward pressure than those in Germany. These trends should be closely monitored, certainly with a view to the emergence of protectionism, because the Italian economy and government will soon derail in the event of increasing interest rates.

Chart 1: World economy is picking up



Source: Thomson Reuters Datastream/ECR Research

Attempts to talk down the dollar are futile

As part of the 'America first' policy stance, the Trump team have made statements lately that are part of an attempt to talk down the dollar exchange rate. For example, China, Germany and Japan have been told they have created an unfair competitive advantage by keeping their currency low, with US business supposedly being the victim of this. The error in the idea from the Trump administration is that trade flows on the currency market only make up a fairly small proportion of turnover. The vast majority concerns international capital movement. So, the movement of a currency rate depends on trade flows, but perhaps even more on capital flows.

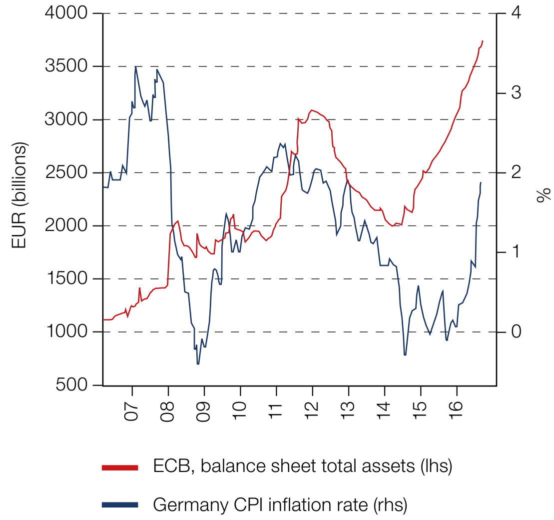
One way or the other

Without exploring all manner of theoretical models, this means the following in the current circumstances. The US economy is running at virtually full capacity utilisation and is growing above potential. So, the risk of additional wage increases and inflation is gradually emerging. It should also be remembered that the Fed has created vast amounts of additional money over the past years. It should therefore be wary of inflation increasing excessively. Growth then should be gradually pushed back to potential – approximately 1.75% – in order to prevent inflation from getting out of hand. Hence, the Fed has already indicated it will raise interest rates further. However, the question is to what extent interest rates should be raised to this end.

In Japan and Europe, the loose monetary policy being followed by the central banks means that if the Fed were to raise its rates, so much capital would flow to the US that the dollar would become stronger. This would then cause deterioration in US foreign trade, with the US economy being pushed down in the process. The more this happens, the less the Fed will need to raise its rates to push growth back to approximately 1.75%.

All then that is achieved by talking down the dollar is the Fed having to hike rates more than in the situation where the dollar rate would have increased in tandem. In other words, in terms of ultimate economic growth it does not matter at all whether or not the dollar increases in tandem. However, in the one case the pain will be felt in terms of foreign trade, and in the other it will be fely by anyone who wants to borrow money.

Chart 2: Higher inflation in Germany raises pressure on ECB to tighten monetary policy



Source: Thomson Reuters Datastream/ECR Research

Capital flows reign supreme

Moreover, what the Trump team forgets is that the situation was precisely the other way around a number of years ago. Back then, it was the US that pursued a far looser monetary policy than Europe and Japan. A great deal of capital therefore actually flowed overseas, resulting in an enormous decline in the rate of the dollar. EUR/USD is currently at 1.07, while purchasing power parity is somewhere around 1.20. However, at the time the rate soared all the way to 1.40 – 1.60, as a result of which there was a far greater overshoot than now.

Incidentally, it is important to note: history shows that interventions – both verbally and on the currency market – can never push currency rates up or down for long. Capital flows will always win in the end, unless the fundamentals change (eg higher or lower interest rates). So, in the current case the dollar exchange rate may be kept low for a while or even be pushed down, but if the result is even higher US interest rates, the dollar exchange rate will ultimately still increase.

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INSIGHT & ANALYSIS

Brexit: one year on, what's changed?

With UK Prime Minster Theresa May planning to trigger Article 50 by the end of March, the clock is ticking on Britain's membership of the EU. The question on the lips of many finance professionals is what will happen next? Treasury Today explores the various Brexit scenarios and what they might mean for corporates.

TECHNOLOGY

Blockchain: the story so far

By far the biggest buzzword in financial services today, blockchain, it seems, has tremendous potential to revolutionise finance. To see if this will happen, and how, Treasury Today retraces the development of the nascent technology and looks at some of the latest developments.

RISK MANAGEMENT

Managing market volatility

From managing balance sheet risk to reducing operating costs, it has never been more important for treasurers to have a full view of risk across the business. But how is this obtained and then how can these risks be effectively managed?

We always speak to a number of industry figures for background research on our articles. Among them this month:

Daniel Aranda, Managing Director, Ripple Europe; Andrew Bateman, Head of Corporate Liquidity and Bank Treasury, FIS; Cale Bennett, Group Treasurer, Tatts; David Blair, Managing Director, Acarate; Carl Burman, Head of Treasury, Maersk; Jennifer Ceran, CFO, Smartsheet; Linda Coven, Senior Analyst, Aite Group; Steffen Diel, Head of Treasury, SAP; Fenella Edge, Group Treasurer, The Housing Finance Corporation; Mark Evans, Managing Director, Transaction Banking, ANZ; Mark Evans, Global Head of Payments Advisory, Global Liquidity and Cash Management, HSBC; Jose Franco, EMEA Product Executive Treasury Services, J.P. Morgan; Jeremy Froud, Managing Director, Head of UK Debt Capital Markets, Barclays; Neil Garrod, Director of Treasury, Vodafone; Damian Glendinning, Treasurer, Lenovo; Guillermo Gualino, Vice President and Treasurer, Agilent Technologies; Janko Hahn, Head of Treasury Operations, Autoneum; Alex Haigh, Regional Currency Manager EMEA, Mars Incorporated; James Haycock, Managing Director, Adaptive Lab; Marcus Hughes, Director of Business Development, Bottomline Technologies; Martin Hutchings, Partner, Freshfields Bruckhaus Deringer; Duncan Kellaway, Partner, Freshfields Bruckhaus Deringer; Pieter de Kiewit, Owner, De Kiewit Treasurer Search; Mustafa Kilic, CFO, Groupe SEB; Mike Lamberg, Chief Information Security Officer, OpenLink; Michael Lim, Global Head of Trade, ANZ; Vuk Magdelinic, CEO, Overbond; Olle Malmgren, Executive Director, Treasury Solutions Americas, Transaction Banking, Standard Chartered; Morgan McKenney, Head of Core Cash Management, Citi; Ireti Samuel-Ogbu, EMEA Head of Payments & Receivables, Treasury and Trade Solutions, Citi; Karlien Porre, Partner, Global Treasury Advisory Services, Deloitte; Jonathan Pryor, Head of FX Dealing, Investec; Alberts Pumpurs, Partner, UX Design Agency; Wim Raymaekers, Global Head of Banking Market, SWIFT; Rory Renshaw, Managing Associate, Linklaters; Jan Rottiers, Managing Director, Head of Liquidity Management Products & Projects, BNP Paribas; James Santoro, Managing Director and Head of Liquidity & Investment Advisory Americas, Corporate & Institutional Banking, BNP Paribas; Walid Shuman, Managing Director, Head of Cash Management Americas, Corporate & Institutional Banking, BNP Paribas; Bob Stark, VP of Strategy, Kyriba; David Stebbings, Director, Head of Treasury Advisory, PwC; Mike Tucker, Managing Director, Cadence Search; John Walsh, EMEA Head of Domestic Payments & Receivables, Treasury and Trade Solutions, Citi; Jason Wang, Group CFO, Biostime.