JOURNEYS TO TREASURY

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2020-2021

LOOKING BACK, THINKING AHEAD

SHAPING THE WORKING CAPITAL AGENDA

A SUCCESS OF CENTRALISATION

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Content

PRINT VERSION

LOOKING BACK, THINKING AHEAD

Welcome to the fifth edition of the Journeys to Treasury report, a landmark in the partnership between BNP Paribas, EACT, PwC and SAP. As in previous years, the 2020 report features expert insights from leading experts and practitioners on the themes that are influencing treasurers' policies, processes, technology and resources. With the COVID-19 dominating our personal and professional lives, the Journeys to Treasury participants collaborated on a Special Edition earlier this year to offer specific and timely guidance on treasurers' key concerns and priorities during the early stages of the crisis.

Although the purpose and essential character of Journeys to Treasury has remained the same since it was first conceived in 2016, it has evolved year-on-year to reflect the changing environment in which we operate, and the feedback of our readership. Each year, we have engaged corporate treasurers, whose practical experience and depth of insight complements the expertise and breadth of experience offered by the Journeys to Treasury participants. As the size and geographic reach of our readership has increased, we have extended the report from a European perspective to present a global outlook on the issues and priorities that treasurers face.

This year has proved highly challenging as a result of the pandemic, and treasurers have been intensively engaged on managing the immediate and continuing impact of the crisis. Consequently, although this year's report contains fewer case studies than usual, we have continued to include the treasurer's voice throughout the report, including publishing the results of the EACT Summit survey of 200 treasury and finance professionals.

Many of the themes featured in previous reports have remained current and pertinent to treasurers. The topics we have covered most regularly, for example, are real-time payments, cyber risk and fraud, and digital technologies. Looking back over the past five years, it is notable how far the dialogue on these topics has progressed, and how the opportunities available to treasurers have expanded.

The reality of real-time payments

Real-time or instant payments have featured in the Journeys to Treasury reports for three of the past four years. In the 2016 report, real-time payments were considered more in conceptual terms than a reality, based on the experience of most treasurers in Europe at that time. This contrasted with Asia, where real-time payment methods, both national schemes and mobile wallets, were expanding quickly. At that stage, when many corporations in Europe had yet to digitise their business models, the value of real-time payments was unclear. Treasurers had typically refined their domestic payments and collections over time, and were more concerned about the unpredictable settlement timing and lack of traceability of cross-border flows than domestic flows.

"In addition to real-time domestic payments, we have seen substantial progress in increasing the speed, predictability and traceability of cross-border payments, such as SWIFT global payments innovation (gpi). For corporate treasurers, these developments have been at least, if not more significant than faster or real-time domestic payments."

Christian Mnich, Head of Solution Management, Treasury and Working Capital, SAP

By 2019, the focus of the report had expanded globally, so the prevalence of real-time payments schemes in Asia, came more clearly into view. The speed of change in Asia has been remarkable, with echoes reverberating globally.

"Although the Asian real-time payments story has evolved in a different context to Europe, not least due to its diverse regulatory, currency and economic situation, there are lessons to be learnt. European and North American businesses are increasingly recognising the benefits of instant payments from experiences in Asia. Consequently, they are looking to treasury centres in Asia to understand how they have adapted their accounts payable, accounts receivable and cash flow forecasting practices to reflect the increased use of instant payments."

Jan Dirk van Beusekom, Head of Strategic Marketing, Cash Management & Trade Solutions, BNP Paribas

The COVID-19 crisis has emphasised the value of real-time payments in supporting digital business models, but also accelerating working capital, a critical issue at a time when flows have become less predictable and liquidity more constrained. As a result, real-time payments have become a higher priority, however, not only for business-to-consumer (B2C) but increasingly for business-to-business (B2B) payments and collections. Companies in almost every industry are embarking on new business models, including direct-to-consumer sales, subscriptions and dynamic supply chains.

"The ability to leverage digital channels to expand into new customer segments and increase revenues has become essential during the COVID-19 crisis, and organisations in all industry sectors have redoubled their efforts to leverage digitisation across all aspects of their business, from supplier to end customers."

Christian Mnich, SAP

Real-time payments and collections are often at the heart of these new digital business models, as we explore further in 'Treasury on Demand' in this year's report.

"Real-time payments are now live in more than 40 countries, with an additional 40 to follow shortly. Business demands for real-time collection is prompting treasurers to explore in depth the implications of real-time payments and the associated risks."

Didier Vandenhaute, Partner, PwC

Furthermore, expertise, technologies and successful use cases derived in countries and industries that are more advanced in their adoption of real-time payments are encouraging wider interest and adoption.

"Support for real-time payments is a great example of how treasurers can partner, and bring value to business operations, particularly as companies embrace newer business models. As payment limits on real-time payments are raised or removed, adoption will further increase. Ultimately, the faster that companies collect cash, the better, particularly at a time when working capital has become such a high priority, which will drive adoption."

Francois Masquelier, Deputy Chair, EACT

A collective response to the cyber risk and fraud threat

As the use of digital technology across all aspects of our lives has increased and evolved, so too has the risk of fraud, whether originating within or outside the organization. While treasurers rarely 'own' responsibility for cyber risk, they play a major role given the sensitivity of the data and scale of financial transactions and holdings managed within the department. Consequently, cyber risk and fraud has been a theme revisited in three of the past four Journeys to Treasury reports. Tackling these risks continues to be a priority for every treasurer globally, exacerbated by the COVID-19 crisis, which resulted in an upsurge in cyber risk and fraud, discussed by Journeys to Treasury participants as part of the Special Edition.

"As cyber-risks such as CEO fraud and ransomware increase, it is important to be prepared, stress test and have your business continuity plan ready. Whether defending against virtual or real viruses, think the unthinkable and be ready to react, respond, report and rebound."

Jan Dirk van Beusekom, BNP Paribas

In 2016, while many of the cyber threats that we continue to face today, such as social engineering and hacking, were already familiar, it was feared that new developments such as real-time payments and open banking could exacerbate these risks further. Dual-factor authentication and biometrics that have since emerged strongly to counter these risks were still relatively uncommon in treasury.

"Risks around account set-up and account access are major concerns, but multi-factor authentication is now routinely available to create additional levels of security."

Jan Dirk van Beusekom, BNP Paribas

In that same year, Journeys to Treasury experts highlighted the potential of artificial intelligence and 'big data' as it was then most commonly described, to tackle the cyberthreat. Banks and vendors have since leveraged these technologies to create sophisticated tools to understand payment trends and identify anomalies and outliers.

In 2017, we moved from potential to practicalities, and offered ways for treasurers and their teams to protect their organisations, with a particular emphasis on awareness and training. Just as potential vulnerabilities around real-time payments and open banking were identified in 2016, the increasing use of mobile devices for financial transactions was noted as a potential risk in 2017. Again, the prevalence of biometrics and multi-factor authentication have been instrumental in overcoming these perceived challenges.

2018 presented a continuation of the themes explored in 2017, but as well as building awareness within companies, the focus extended to how organisations can work together to share intelligence and tackle threats collectively.

"Nobody can tackle the risk of cyberattack or fraud on their own. Engage with Journeys to Treasury and your national treasury association, take part in cybersecurity and fraud management initiatives from your banks and vendors, and play an active role in working with other participants to evolve, develop and co-create effective approaches to security."

Jan Dirk van Beusekom, BNP Paribas

Today, cyber-risks continue to increase and evolve, and all business functions within an organisation have a role to play in tackling these threats.

"The more integrated processes are from end-to-end, such as invoice to pay, supported with clear structures and policies, the fewer vulnerabilities. This requires a collaborative approach across multiple departments, whether accounts payable, shared services centres, procurement, finance and treasury."

Christian Mnich, SAP

"Treasurers also need to focus on automating and securing processes within the department, including automating processes, leveraging IT security solutions and enhancing internal controls. Security is also a factor in treasurers' choice of SaaS and cloud-based solutions, and outsourcing."

Francois Masquelier, EACT

Companies in almost every industry are embarking on new business models, including direct-to-consumer sales, subscriptions and dynamic supply chains.

Centralisation also plays a major role in tackling these risks, a theme covered in this year's report.

"Although some payment factories have existed for a decade or more, interest amongst treasurers has increased, including 'payments on behalf of', even amongst smaller companies. This is mainly driven by the need to better control payment outflows as part of a working capital strategy, but also mitigate the risk of fraud and cyberattack. We are also seeing a growing number of corporates implementing solutions that were originally only directed to banks or very large MNCs, such as automated sanctions screening."

Didier Vandenhaute, PwC

However, implementation costs of payment factories can be high, and at times hard to quantify, Likewise, cyber-risk management and compliance costs can be substantial, which is a factor in encouraging companies to outsource functions such as payment factories.

The rise and rise of digital technologies

The role, development and opportunities created by new digital technologies has been a consistent focus of Journeys to Treasury reports over the past four years. 2020 is no exception, with digital technologies intrinsic to all of this year's themes. In 2016, certainly from a European perspective, treasurers were tentative in their approach to digital technologies. At that point, there were still more questions than answers around newly emerging 'fintechs' (financial technology companies), including what they were and the role they could play, the value of 'big data', and the potential for blockchain or distributed ledger technologies.

By 2017, the landscape was becoming a little clearer, at least in terms of the complementary, nature of newer fintechs and non-bank payment service providers (PSPs) alongside traditional banking and technology players. The rather vague and indefinite nature of 'big data' was becoming more crystalised around data analytics, and opportunities through robotics were also becoming clearer.

"We have seen the use of robotics increasing as solutions become more readily available to automate a wide range of processes in treasury, giving employees more time for strategic tasks instead of operational ones."

Jan Dirk van Beusekom, BNP Paribas

By 2018, digitisation was firmly on the treasury agenda, with treasurers seeking to understand what the 'digital treasury' meant in practice. Over the following year, we explored how treasurers were putting opportunities to simplify, automate and improve decision-making into practice, adopting new approaches to familiar problems, such as cash flow forecasting.

"Treasurers have embraced technology solutions and digitisation opportunities for a variety of reasons, including: increasing productivity; enhancing internal controls through automation and systems integration; reducing costs; improving resilience and accuracy, and meeting regulatory requirements. Many have boosted IT skills within their departments which has made technology more readily accessible."

Francois Masquelier, EACT

This year, we look at how treasury is using its growing digital confidence and aligning its digital priorities with those of the wider business.

"Digital transformation in treasury rarely takes place in isolation from a wider, enterprise-wide digital strategy that is not limited to treasury. The crisis has emphasised the value of an integrated approach to digital transformation, not only within the business, but externally in the way that the company engages with customers and suppliers."

Christian Mnich, SAP

As ecosystems increasingly function in real-time, and embrace new customer segments and engagement models, treasurers are tasked to provide highly responsive, on-demand cash and liquidity services to the business, in which digital technologies play a vital role.

"Digital technologies are helping clients to harness sophisticated data analytics to drive better decisions and highlight early indicators. Meanwhile, application programming interfaces (APIs) are enabling seamless connectivity to integrate banking solutions, payment service providers, trading platforms, market data and credit agencies to an unprecedented degree."

Christian Mnich, SAP

As the EACT Summit survey results reveal, treasury technology and digitisation were already high priorities amongst treasurers, but this has been further enhanced by the crisis.

"Treasuries that were more digitally agile have been better prepared to cope with the crisis, both operationally, such as an easier transition to homeworking, and strategically, through better cash flow forecasting and scenario modelling. It is likely that treasurers seeking to pursue further technology and digital adoption plans in the future will receive greater senior management and budgetary support given treasurers' demonstrably business-critical role during the crisis and the value of automated technologies in fulfilling this role."

Didier Vandenhaute, PwC

SHAPING THE WORKING CAPITAL AGENDA

IN CONVERSATION WITH JOURNEYS TO TREASURY EXPERTS

Ensuring that the company has sufficient working capital to operate is an integral part of treasury's role. In many cases, however, treasurers have been involved in working capital only to the extent of managing the outcomes of decisions made by other business functions. As working capital has become more constrained, some treasurers are engaging more closely with the functions that 'own' different elements of working capital, and exploring opportunities for working capital enhancement.

Treasurers' role in working capital

"Lines of responsibility for working capital are often blurred. Departments that play a role, such as treasury, accounts payable (AP) and accounts receivable (AR), credit management and procurement often have different key performance indicators (KPIs) which makes it difficult to take an integrated approach. Without consistent KPIs, there is a high risk that working capital initiatives that focus on a single driver or department will not achieve the desired improvement. At Rexel, we have taken a shared approach to KPIs, so treasury works proactively alongside other departments to influence the levers of working capital. KPIs are reported to the CFO, who takes a key role and oversight over working capital decisions."

Romy Tognon, Head of Group Treasury, Rexel, and EACT working capital/ treasury expert

Like Rexel, many treasurers are participating more actively, or in some cases taking a leadership role in optimising working capital. In regions such as Asia Pacific, this trend is even more apparent,

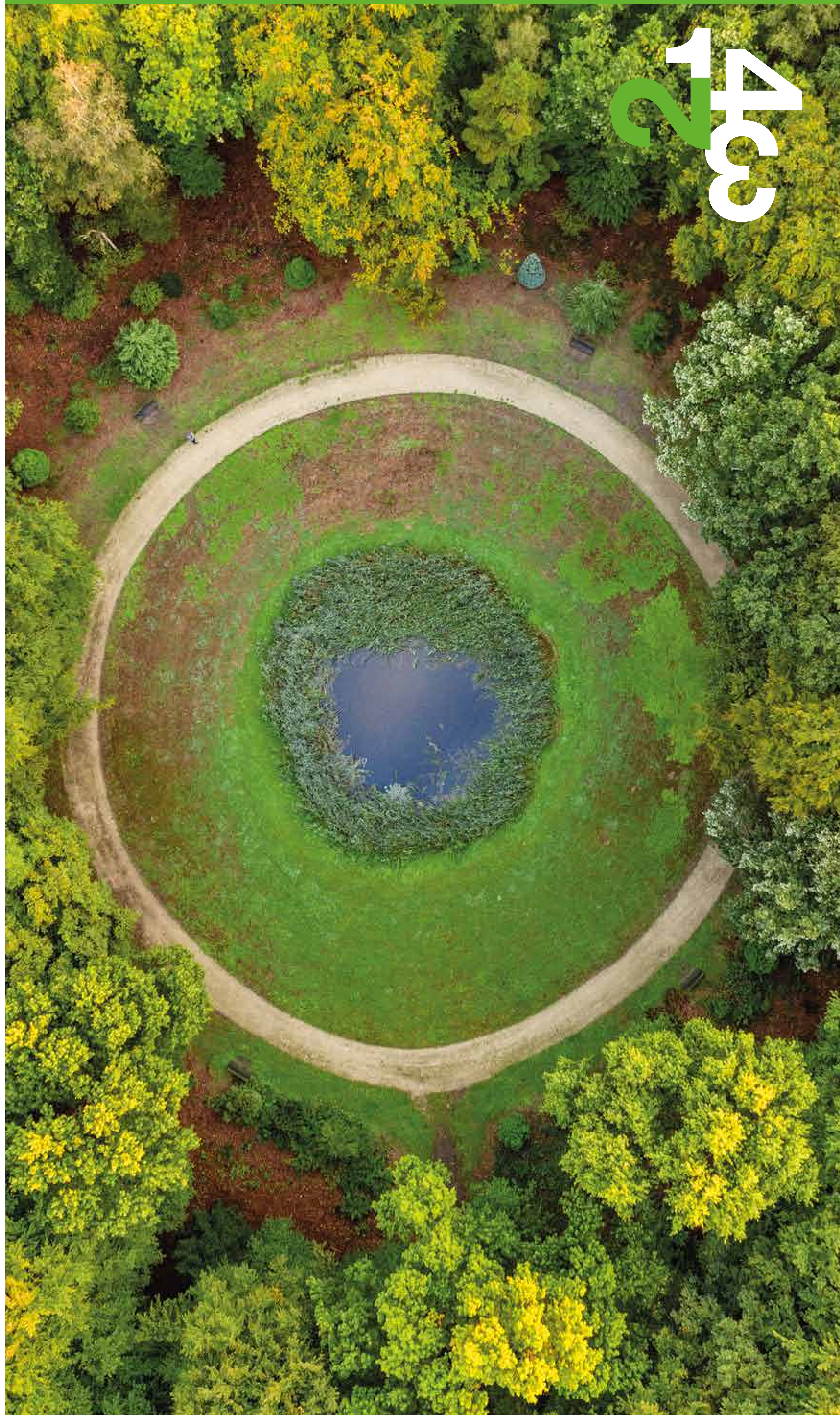
"In Asia Pacific, we are seeing treasurers taking responsibility for a wider range of working capital metrics, particularly given the diversity of regulations and number of currencies involved."

Edwin Chan, Head of Transaction Banking Product Management, APAC, BNP Paribas

Just as maintaining access to liquidity has become more important since the COVID-19 crisis, the business case for treasurers' involvement in working capital has also become more compelling. Treasurers have overall visibility of what liquidity is available, and where it is needed. By going more deeply into the processes that drive working capital, they are better able to:

- improve the efficiency of these processes e.g. by standardising and centralising collections, and encouraging the use of more predictable payment methods such as direct debits, they can help get cash in more quickly and reliably.
- influence working capital levers and therefore liquidity demands by leveraging techniques such as factoring and reverse factoring.

Since the COVID-19 crisis, the business case for treasurers' involvement in working capital has become more compelling.



Overcoming organisational obstacles

One of the obstacles to working capital optimisation is that responsibilities are spread over multiple departments, which can often operate in a siloed way.

“There are a number of departments involved, not only procurement, sales, accounts payable and receivable, but also accounting, controlling, consolidation etc. as well as subsidiaries and affiliates. Consequently, any working capital Initiative need to be driven by the CFO. Indeed, lack of senior executive sponsorship to help break down barriers between siloes is often a factor in less successful projects.”

Francois Masquelier, Deputy Chair, EACT

Related to this, siloed departments may have different KPIs, which prevents integrated working capital strategies.

“Currently, sales, procurement and credit teams make cash decisions, which can create a mismatch if they are driven by different operational KPIs, and not making the proper connection between the balance sheet, month-end KPIs and operating metrics. Treasury can play an important role in helping to align these.”

Rob Kortman, Partner, PwC

Pre-requisites for working capital improvement

The COVID-19 crisis has prompted many corporations to revisit, revise or accelerate working capital strategies as liquidity dynamics have changed, often dramatically. Treasurers are likely to take a greater role in this given their increased visibility with the CFO, and the elevated awareness of the importance of liquidity management.

“The crisis has emphasised the importance not only of measuring and explaining working capital metrics, but taking positive action to improve, anticipate and respond to different scenarios that will impact them.”

Francois Masquelier, EACT

End-to-end supply chain visibility

In order to take on this wider responsibility, treasurers need to establish end-to-end visibility over the purchase-to-pay (P2P) and order-to-cash (O2C) processes as far as possible. A first step is to ensure that these processes are as efficient as possible.

“Before looking at working capital programmes, we focused first on invoicing promptly, digitising the collections process from end-to-end, and collect faster.”

Romy Tognon, Rexel & EACT

Digitisation of payments and collections is a major topic in itself and it is not the intention to go into detail in this section; however, focusing on these areas is an important precursor to looking at working capital optimisation techniques.

Use data to explore liquidity dynamics

The next step is to use visibility to understand the liquidity dynamics more fully.

"It is much easier for treasurers to analyse working capital dynamics if they have complete visibility over the working capital cycle, as opposed to having to extract data from multiple source systems. If treasurers can see more precisely the sources of liquidity, and understand the drivers of future payables and receivables, then they are in a better position to use this data to optimise working capital."

Christian Mnich, Head of Solution Management, Treasury & Working Capital, SAP

Data is essential to create intelligence and assess scenarios, such as adjusting payment terms, analysing customer payment behaviours and forecasting the effects of FX volatility.

"We are tending to see more large corporations implementing working capital programmes than their smaller peers, which helps them to manage working capital more efficiently and therefore create competitive advantage. This is not necessarily as these companies derive more value from these programmes than smaller companies, but often because they have greater visibility and can see the opportunity and benefits more distinctly."

Haresh Chhaya, Director of Solution Management, Working Capital, SAP

Consequently, smaller companies in particular are increasingly asking banks for data to support working capital analysis and optimisation.

"We are increasingly supporting clients' working capital initiatives, both through our cash, liquidity and working capital solutions, but also by harnessing the data we hold relating to their flows, balances and risks, both directly relating to their own business, and across their wider ecosystem."

Jan Rottiers, Head of Liquidity Management, BNP Paribas

Designing working capital strategies

With better data and insights, treasurers can then work with colleagues to determine possible ways to optimise working capital.

"The COVID-19 crisis has strengthened companies' focus on receivables, although this is also a trend we have seen over the past couple of years. Companies are looking at customers' payment behaviour and using tools such as factoring to improve cash-in reliability."

Rob Kortman, PwC

Digital solutions can play a significant role in this.

"Machine learning can be helpful in understanding payment behaviours, which can inform working capital strategies and influence liquidity decision making."

Dr Arif Esa, Director of Solution Management, Working Capital, SAP

Having pinpointed opportunities to improve working capital, most techniques for doing so are familiar, including factoring or reverse factoring (e.g. supplier financing). There are a variety of elements to balance, not least the importance of protecting the wider supply chain, and strengthening relationships. For example, on the supply side, a key objective should be to offer suppliers a solution that enables timely and predictable payment.

"We have supply chain finance programmes in place in several countries, and we are also looking at virtual cards and a discounting programme. It is very important that suppliers are a key part of our working capital strategy, so we work with them to agree constructive approaches to extending payment terms and building relationships. On the sales side, we have factoring programmes in two countries."

Romy Tognon, Rexel & EACT

As well as structuring their own working capital programmes, companies are also looking into their customers' working capital programmes; for example, in some cases, it may be better to join customers' reverse factoring (supply chain financing) programme than use their own factoring programme.

Everyone needs to understand their role in optimising working capital, and the priority within the organisation. Tools and metrics help to support a cash culture, but they alone do not create it.

Evaluating the implications

When implementing a working capital programme, treasurers and their colleagues need to consider the accounting implications as well as the cash and liquidity impact.

"The main consideration is whether it will be treated as off-balance sheet or as debt. We expect to see more companies looking at working capital programmes as they seek greater cash security, but they need to consider whether they are holding more risk, such as credit or liquidity risk, as a result. Banks will not necessarily be in a position to take on this risk, but the result is that the programme may not be accounted for as debt factoring. There is also a possibility in the current environment that facilities that have not been used a great deal in the past will be cancelled."

Claire Howells, Accounting Consulting Services, PwC

To overcome these challenges, some companies are looking at multi-provider programmes or platforms, rather than single-provider, which can also be a preference amongst lenders.

Looking beyond working capital financing

While many companies will look first to factoring and reverse factoring as a means to enhance working capital, there may be other ways to achieve this:

Leveraging free trade opportunities

Treasurers need to engage with customs, international trade and tax experts to understand existing customs fees, and where better opportunities might exist.

"It is important to understand the features of the customs system. For a retailer importing textiles, the cash impact can be 12 percent, with a direct effect on profit margins, by not necessarily buying the cheapest, but sourcing more wisely through free trade zones and leveraging free trade agreements."

Lionel van Reet, Partner, PwC

This can be a difficult issue for treasury to influence in practice, but by bringing together the relevant expertise into the procurement process, the impact can be significant.

"After all, customs charges are effectively a transaction tax. These costs are incurred immediately, so the benefits of better sourcing are also immediate."

Lionel van Reet, PwC

Opportunities also exist to reduce costs through more intelligent re-exporting. In the United States, for example, there may be opportunities to use the system of duty drawback, which rarely exists elsewhere. Companies may reclaim import duties if goods are subsequently re-exported, potentially reducing costs by 25 percent in some sectors.

Digitising trade finance

Innovations in trade finance also bring opportunities for working capital improvement. With digital trade platforms now becoming more widely adopted, treasurers and their colleagues across sales, procurement and logistics functions can accelerate supply chains by reducing cost, delay and error in international trade finance, and increase the predictability of flows.

"BNP Paribas was amongst the first banks globally to complete fully end-to-end trade finance transactions, as well as being a founding member of the Trade Innovation Network (TIN) which helps to close the financing gap by providing greater access to working capital across supply chains, and ultimately enabling visibility and data sharing across the trade ecosystem."

Bruno Francois, Deputy Global Head of Trade Finance and Network Management, BNP Paribas

Leveraging real-time and faster payments

An area of opportunity with which more treasurers will be familiar is the potential of new and emerging payment and receivables methods. These include the rise of instant, or real-time payments, and growing opportunities to use commercial cards, including virtual cards.

"While use cases for real-time payments have typically focused more on B2C and C2B payments than B2B, the COVID-19 crisis has emphasised the value of digital payments, and prompted many companies to consider ways to accelerate supply chains. Instant payments, alongside commercial cards (including virtual cards), can help to achieve this, reducing credit risk through supply chains and accelerating the flow of goods and services."

Bruno Francois, BNP Paribas

Cross-border flows are also accelerating, an essential factor

in driving working capital improvements in international trade transactions, such as through SWIFT gpi (global payments innovation). This incorporates a new service level agreement that provides faster payments accompanied with higher quality data, to which nearly 4,000 member banks and more than 80 market infrastructures have signed up. By the end of 2019, there were more than 1,800 live currency corridors and more than 830 banks in live operation. 40 percent of cross-border flows via SWIFT gpi take place within 5 minutes, and 96 percent within 24 hours[1] (data published March 2020).

"The challenge for many treasurers is therefore not the speed or predictability of trade flows, but having access to this data with sufficient regularity to act on it."

Christian Mnich, SAP

Furthermore, companies that operate in multiple jurisdictions may struggle to get consistent access to actionable data.

"While the number of real-time payment schemes, such as in Asia Pacific, is increasing, with growing adoption particularly for C2B and SME2B payments and collections, there is no interoperability between these schemes. Consequently, a bank intermediary can be essential to link to clearing houses and provide data in a consistent way. These challenges are exacerbated further by the growth of third party payment providers, such as wallets, which also need to be linked in a consistent way into payment and collection processes to avoid fragmentation and derive the full working capital advantage."

Edwin Chan, BNP Paribas

Overall, however, the shift towards faster payments, both domestically and cross-border, can have a significant impact on working capital, but treasury departments also need to be equipped to manage real-time data and support 'just in time' liquidity management.

The value of a cash culture

While treasurers can influence and inform the working capital agenda to a greater or lesser extent in each organisation using a range of levers, including processes, technology, financing, trade and liquidity techniques, they cannot do so alone. Most important of all is that treasurers can work with CFOs to encourage a cash culture across the business, with KPIs that are aligned from balance sheet through to operational level, and a continuous feedback loop.

"Everyone needs to understand their role in optimising working capital, and the priority within the organisation. Tools and metrics help to support a cash culture, but they alone do not create it."

Rob Kortman, PwC

With the financial and economic effects of the COVID-19 pandemic, as well as its human and social costs, anticipated to continue over a long period, the business case for creating a cash culture is likely to be more compelling than ever. This includes not only industries that have seen demand slump, but also those whose products and services have been in high demand over the early stages of the pandemic who have experienced supply chain interruption and difficulties in financing additional production. Treasurers can take a leading role in helping central business functions to understand and shape the working capital dynamics within their business, and help their organisations both to survive and thrive.

SUMMARY

- Gain CFO support for integrated working capital initiatives, and align KPIs across business functions.
- Focus on efficiency in the P2P and O2C processes, leveraging technology to standardise and digitise wherever possible.
- Review payment and collection methods to identify opportunities to accelerate supply chains and improve predictability, which could include cards and instant payments.
- Use data to pinpoint opportunities for working capital improvement, which may involve looking beyond traditional factoring and reverse factoring techniques.
- Look at both sides of the supplier-customer relationship when considering working capital strategies. Every company is both a supplier and a customer, and it is important to consider perspectives to create a sustainable approach and protect relationships.
- Promote a cash culture across the organisation in which every business function and subsidiary plays a role.

CASE STUDY

Working Capital Projects: 6 Steps to Success

Marc Krehenbrink, Head of Working Capital Management, Nordex Group

Wind turbine producer Nordex saw its business change considerably as a result of the merger with Acciona Windpower (AWP) in 2016, expanding from a mainly regional to a global organisation. One outcome of the merger was a renewed focus on working capital. In this article, working capital manager Marc Krehenbrink shares his experiences on the factors that have driven their success.

The merger with AWP created significant change in our business, including senior management and strategic direction. Our senior management recognised that enhancing working capital was essential to leveraging efficiencies post-acquisition, and help support future growth. Consequently, during Q2, 2017, we embarked on a working capital optimisation project. One of the first questions we needed to address was whether to manage the project internally, or seek external help. We had very limited dedicated working capital resourcing at that time, so it was difficult to fully resource the project ourselves. We therefore selected PwC to support the project and supplement our own resources. We recognised that a third party would offer some distance from our day-to-day activities, and take a more systematic approach. Furthermore, it is often easier for a third party to be open and honest in their recommendations.

Defining working capital priorities

We already had some perspective on the areas in which we could achieve the greatest working capital benefit, but together with PwC, we were able to analyse key performance indicators (KPIs) objectively, and identify where potential improvements could be made. We did this across all three focus areas: forecast to fulfil, procure to pay, and order to cash. As a result of this process, we were able to make recommendations to senior management, most notably in supplier payment terms. Given the scale of trade payables on our balance sheet, any improvements would have a significant impact.

When we first appointed a consultant, we had not decided whether to engage them beyond the evaluation process into implementation. In fact, we found that the benefit of a third party view, and a systematic and dedicated focus, was very valuable, so we continued our relationship to implement the recommendations of the first project phase.

Six Steps to Success

Looking further. Many companies focus their efforts on the most obvious elements of the working capital cycle, namely payables and receivables. While there may be opportunities for improvement in these areas, companies with complex supply chains and long billing cycles need to look deeper into their supply chains, especially at inventory levels across all business units.

Senior management support. Proactive senior management sponsorship is essential to any major programme that involves different business functions, and challenges existing ways of working. In addition, we engaged very proactively with individuals across the business to explain the benefit of the initiatives we were undertaking, and their role in achieving these benefits to create ownership at all levels of the organization. Ultimately, this proved very successful, but clear, regular and open communication was crucial.

CASE STUDY

Working capital culture. While the initial project itself finished in 2018, individual tasks and projects are less important than the longer-term shift towards a working capital culture within the business. As we implemented the recommendations, we gained both senior management support, and wider attention from across the organisation. These factors were essential both during the project and over the longer term. Today, the business functions that contribute to working capital are far more conscious of the impact of their activities, and therefore take a more considered approach, e.g. to managing inventory. We have a small team now dedicated to working capital management, but its ability to add value is predicated on a wider working capital culture in the business.

Versatility. A project of this nature represents a complete departure from the normal, daily working capital routine. Consequently, it required a different set of skills, including people management, project management and communication. This was very motivating, and helped to shape longer term relationships between the working capital team and the wider business.

Reporting structure. It was essential to put a reporting structure in place to demonstrate working capital performance improvements. For example, by showing objectively the impact of shifting to upfront and milestone payments on customer contracts, we encouraged further senior management support. One of the problems with working capital projects is that it can take time for new strategies to bear fruit, so objectives and reporting need to be calibrated over the medium term rather than expecting all the advantages to accrue upfront.

Adaptability. Inevitably, the business continues to evolve and change, which has an impact on working capital and reporting. We restructured our business along division lines, so we had to adapt our reporting structure, including mapping KPIs with the previous organisation wherever possible. During a reorganisation, it was also important to maintain the focus on working capital, and ensure visibility and accountability at divisional level, whilst supporting consolidated reporting at a group level.

ABOUT THE NORDEX GROUP

Headquartered in Hamburg, Germany, the Nordex Group was founded in 1985 to become one of the leading integrated, global manufacturers of innovative onshore wind turbine systems. In 2019, the company generated sales of around EUR 3.3 billion with 6,880 employees in over 40 markets.

CASE STUDY

A Personal Approach in a Commoditised World

Kurt Crollet, Chief Executive Officer, Steelforce N.V.

Steelforce has been trading steel across the world since 1989, purchasing steel from 25 countries and selling into 90 countries, including some of the world's most challenging markets. In 2019, the company had a turnover of €1.3bn, equivalent to 2.5 million tonnes of steel. In this article, Kurt Crollet, Steelforce's CEO, describes how they finance and manage these transactions, whilst maintaining a high degree of customer focus.

With 3,000 – 3,500 transactions each year, with an average value of €350,000 - 400,000, a high-performing treasury centre is crucial to the success of our business. With an average transaction lifecycle of four months, we have around €430 million in financing needs at any one time. €60 million is financed through our own equity base, but the remainder needs to be financed externally. Given our small equity base however, our solvency ratio is not high enough for revolving credit facilities at the level we need, so we rely on trade financing. We need to gain specific bank approval for each transaction of an average value or higher, including providing the counterparty, shipment, insurance and legal conditions, and once approved, we are able to go ahead with the transaction. All of our transactions are self liquidating, for security of payment to the banks.

The role of relationship bankers

This a labour-intensive process, and we need to turn around transactions very quickly to minimize price risk given the volatile price of steel. Our banking partners therefore play a crucial role in the success of our business. In particular, they need to understand in depth what we do, how we conduct our business, our global customers, and the way that we manage risk. They also need to recognise the role that trade financing plays in the continuity of our business, and be highly responsive by approving each financing transaction promptly.

Most deals are back-to-back (i.e. purchases are matched to a sale) but we may use different trade finance instruments for purchases and sales. For example, on the purchase side, we generally use letters of credit, and prepayments of 10-30%. We also use credit insurance. On the sales side, we may also use letters of credit in some cases, but the cost can be prohibitive for some of our customers in parts of sub-Saharan Africa or Latin America, so we may use open account transactions with credit insurance. In some cases, we use documentary collections, bills of exchange and avalised bills of exchange (in which a bank guarantees payment of a bill of exchange drawn on an importer).

Digitisation vs personalisation

Unlike businesses in many other industries, we have not implemented a high level of digitisation in our internal processes, such as invoicing or trade financing. Although we look into this from time to time, we have realised that the level of differentiation between transactions would make it very difficult to standardise and automate our transaction flows. This can be frustrating and labour-intensive, but our flexibility and willingness to undertake tailored transactions is also our strength. Too many companies try to structure their service offering around their system capabilities, such as the information or formats that their enterprise resource planning (ERP) platform can produce. This makes it difficult to adapt to specific regulatory requirements in each country. For example, in one country, the importer needs to pay duty on the value of the goods, but not on the services, which may differ elsewhere. Each customs authority will stipulate the exact detail and format of documentation, so to do business successfully in more challenging countries, this agility is essential.

CASE STUDY

One of the other highly bespoke aspects of our business is the way that our liquidity capacity is calculated. For example, our ability to finance a transaction is based on a combination of the outstanding facility headroom with each bank, and the value of our assets. The complexity is that each bank's calculation varies. For example, in some cases, if 90% of a transaction value is covered by credit insurance, this will be the amount covered by the bank guarantee. Non-executed transactions also have an asset value: for example, if we have the steel but it has not yet been invoiced to the customer, 60-80% can be included in the calculation. As a result, we tend to maintain this calculation of liquidity availability manually, reflecting the variability across banks.

The value of trust

Our business has succeeded due to our specialist expertise and market insights that is highly valued by buyers and sellers alike. As a result of this depth of insight, we are able to construct highly tailored transactions to meet our customers' specific needs, adapted to the regulatory conditions in each market. Deep personal relationships and trust between Steelforce and our customers is intrinsic to this. Likewise, our strength of relationships with our banks, based on a clear, detailed understanding of our business, trust in our senior management and trust in the way we operate, underpins our business.

Automation and digitisation play a huge and growing role in today's industries, but the value of automation needs to be balanced by the human dimension. In our interactions with our banks, for example, the compliance burden continues to grow, as regulations around corporate social responsibility (CSR), know your customer (KYC) and a raft of other areas become increasingly stringent. While the intention of these regulations is correct, relying on systems alone to create trust in the financial system and participants within it could create a false sense of security. Banks which grant trade finance loans have a clear and detailed view of the business they finance and the drawings under credit facilities. In addition to the frameworks set up by the regulators, this knowledge and relationship provides additional KYC assurance. After all, it is not systems and data that do business, it is people, and ultimately, everyone needs to know, and trust, who they do business with.

A SUCCESS OF CENTRALISATION

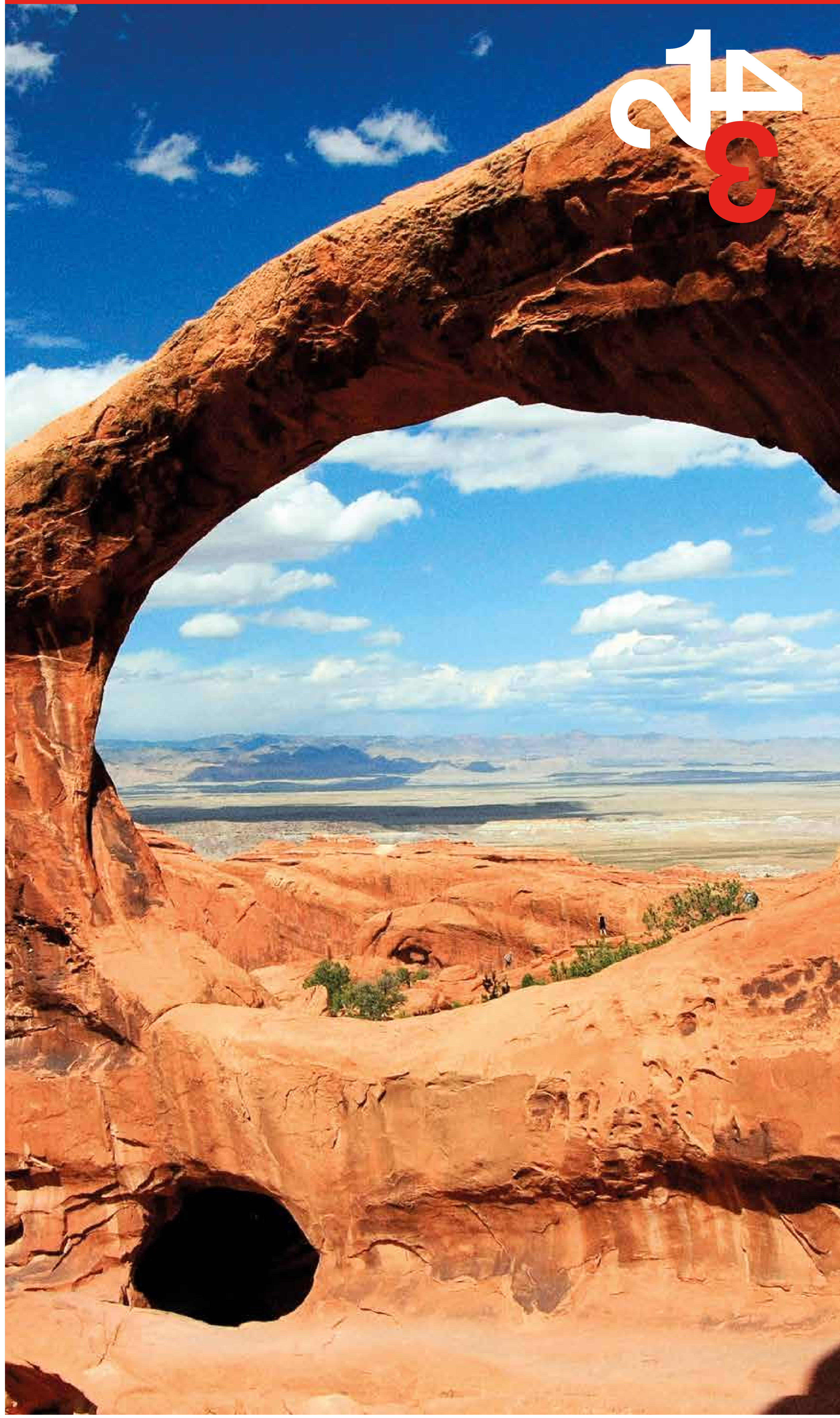
Treasury centralisation has been a trend for a decade or more, particularly amongst large multinational corporations. Today, centralisation is an organisational ambition for a wide spectrum of companies, in order to enhance visibility and management of cash, liquidity and risk on a groupwide basis, create economies of scale and optimise operational efficiency and controls.

However, while centralisation is often a long-held objective, it is rarely a 'one-off' project, but rather an iterative process as the company's business organisation, geographic reach and strategy evolve. Consequently, rarely can treasurers say they have 'completed' centralisation, particularly in organisations engaged in M&A. In addition, while there are many success stories, there are frequently situations when treasurers fail to meet their objectives. In this workshop, expert representatives from the four Journeys to Treasury partners shared their insights on the opportunities and common pitfalls of treasury centralisation initiatives.

Benefits of centralisation

The potential advantages of treasury centralisation are well-documented (box 1), but centralised organisational models can take different forms. Some organisations have a single global treasury centre, while others have a regional treasury model, with varying degrees of autonomy. In many cases, these treasury functions may operate as in-house banks, conducting treasury activities and potentially payments and collections on behalf of group entities. Treasury functions that operate globally or regionally may also blend these models to connect remote users located close to the business into a common treasury platform with consistent processes and controls. Whatever model a company adopts, a common technology infrastructure, processes, controls, reporting and business culture are essential.

For ambitious, fast-growing companies, centralisation projects are not triggered by past events or performance but they aim to position the company for further growth, investing in scalability and flexibility to meet anticipated future needs.



BOX 1. BENEFITS OF TREASURY CENTRALISATION

Centre of excellence	• Create a centre of operational excellence and expertise to provide treasury advisory and processing at a group level
Optimise liquidity	• Rationalise banks and account structures, particularly combined with payments / receivables on-behalf-of structures • Create a central view of cash across the business • Mobilise liquidity at a group level • Work with sales and procurement teams to identify and address working capital friction, and leverage working capital assets as a source of liquidity
Manage risk	• Create a central view of financial and operational risk across the business • Implement hedging strategies in line with the organisation's risk appetite • Minimise points of system access, standardise controls and ensure staff awareness to reduce risk of fraud and cybercrime
Reduce costs	• Avoid duplication of processes, systems and personnel through economies of scale and simplification • Reduce banking costs through rationalised bank relationships, particularly combined with payment and collection factories
Enhance business intelligence	• Leverage centralised data to create enhanced data analytics to support the business more effectively
Support growth	• Create treasury capabilities to support additional scale, new markets or innovative business models quickly

Drivers of centralisation

While in some cases, such as spin offs from large corporations, treasury is a centralised function from the outset, in many cases, the treasury organisation evolves over time as business requirements change. The decision to centralise may be triggered by a variety of different types of event, whether internal or external. Cost reduction and business synergy programmes are common themes, particularly post-acquisition. In other cases, fraud or financial risk events are the drivers, where companies are looking to resolve lack of visibility or fragmented controls across the business. There are also competitive factors, particularly around funding or FX costs, or investment returns.

For ambitious, fast-growing companies in particular, such as in the technology sector, centralisation projects are not triggered by past events or performance but they aim to position the company for further growth, investing in scalability and flexibility to meet anticipated future needs. Whatever the original driver of centralisation, this forward-looking view is essential to ensure that the project delivers not only on immediate objectives, but supports evolving needs over time.

Challenges to centralisation

Given that centralisation has been a long-standing trend, it may seem surprising that so many are still struggling to fully complete their centralisation projects and realise the benefits.

Business case

Whatever the original drivers or triggers, the project needs clear objectives and a strong and compelling business case, including both the quantitative and qualitative benefits:

"Companies that have clear objectives upfront tend to be more successful, not least as they are in a better position to measure the project outcomes."

Walid Shuman, Managing Director, Head of Cash Management Americas, BNP Paribas

"Given the competition for budgets, treasury is not always first in line, so the value proposition needs to be very clear, not only within treasury but across the wider business. We often take a short term view of the value of centralisation projects, such as account rationalisation. However, the year one calculation of value does not take into account the full benefit, such as the ability to manage working capital in a crisis. Treasurers need to work through what the real, long-term value is, particularly as we emerge from the crisis, and learn its lessons."

Amy Goldstein, Managing Director, International Cash Management, BNP Paribas

While centralisation may be the mechanism to enable change, it does not in itself drive benefits to the company: rather, centralisation enables rationalisation and standardisation, whether of banks and accounts, systems, processes and controls. While these objectives often appear feasible on paper, there can be constraints that need to be built into the overall plan.

"Centralisation projects are most successful when they focus on simplifying the full range of interconnected activities, including banking, technology, account structures etc. However, there are some limits on centralisation and simplification, particularly given regulatory differences and specific local requirements across countries and regions. Unless both aspects are reflected in the plan upfront, there can be a perception of failure against unrealistic expectations."

Damien McMahon, Partner, PwC

Many companies may have a centralised treasury model, with a cohesive systems infrastructure, and consistent processes and controls, but this does not necessarily mean that employees with treasury responsibilities are situated within dedicated treasury centres:

"Treasurers need a central hub with a single point of access to information, but at the same time, there may be a business case for keeping proximity to the business, as well as having people located in different time zones."

Coralie van Zyl, Head of Product Development Payments and Receivables, BNP Paribas

Again, these requirements need to be built into the organisational model, as opposed to being dealt with as exceptions.

Getting the right technology infrastructure

Many centralisation projects centre on the technology infrastructure as the backbone of the project. There are a number of factors that drive successful technology, e.g.

Integration

"Whether adopting a best-of-breed or single supplier approach, seamless bank connectivity is essential."

Francois Masquelier, Deputy Chair, EACT

Security

"Security considerations need to underpin the technology strategy. One of the benefits of centralisation is the ability to reduce access points to prevent fraud."

Christian Mnich, Head of Solution Management, Treasury and Working Capital, SAP

Scalability

Treasury technology is a long-term investment, and companies need to consider their needs in conjunction with their business strategy.

"Fast-growing businesses or those expanding into new territories may quickly outgrow their platforms, scalability is important."

Christian Mnich, SAP

Vendor credibility

"Given the critical nature of treasury technology, treasurers need to be confident in the long-term viability of the vendor, and their ability to maintain software in line with changing market and regulatory requirements."

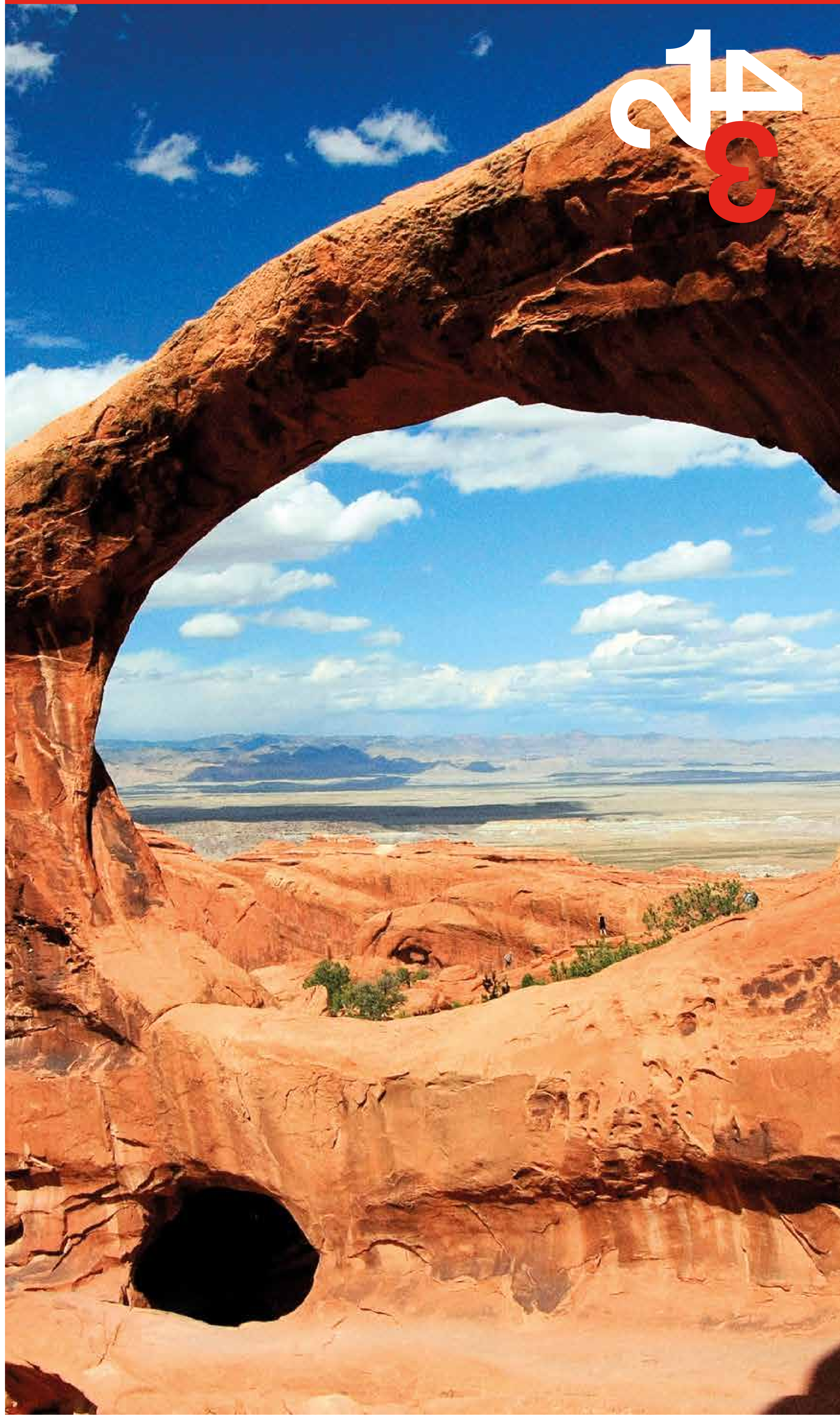
Coralie van Zyl, Head of Product Development Payments and Receivables, BNP Paribas

However, while technology may be the framework for a treasury centralisation project, systems are just a part of the project.

"While the right technology is essential for a successful project, the organisational model, processes, controls and culture that the technology supports is just as important. Furthermore, treasury centralisation is not an isolated project, and needs support from IT and other stakeholders across the business. You can have the perfect IT infrastructure, but this does not mean that you're getting the best from it. Technology can help simplify and accelerate transaction and data flows, but treasurers need significant support from IT and senior management, and an efficient organisational model, processes and controls, to make this happen."

Christian Mnich, SAP

Centralisation projects are most successful when they focus on simplifying the full range of interconnected activities, including banking, technology, account structures etc.



Fragmentation

Multiple systems and fragmented data are amongst the most common impediments to centralisation and rationalisation, and make it far more difficult to gain visibility over groupwide cash, liquidity and risk. However, while centralisation projects typically aim to address this, rationalisation and simplification is often an iterative and never-ending process.

"Many companies are highly acquisitive, and M&A activities mean that centralisation is never complete. Where treasury functions merge as part of an M&A process, or one company 'picks up' the treasury activities of another, these will generally have different systems, processes, controls and business cultures. It is often difficult to dedicate the necessary resources to consolidating and rationalising these different functions, leading to fragmentation. Furthermore, the treasury needs of a combined group may differ significantly from either of the original companies, so the new treasury may end up maintaining multiple legacy platforms, processes and teams until they are able to develop a new IT and organisational strategy."

Francois Masquelier, EACT

Many functions end up with workarounds and compromise processes to try and overcome lack of system capability, or to delay systems investment. This can store up additional problems.

"In the past, people thought of manual processes as 'workarounds' to plug gaps in automated processes – today, the opposite has proved to be the case, with these process exceptions proving to be significant vulnerabilities."

Jan Dirk van Beusekom, Head of Strategic Marketing, Cash Management & Trade Solutions, BNP Paribas

There are also inevitably success factors that are common to every project, including securing sufficient budget, management support to overcome organisational roadblocks, and stakeholder and wider business communication. Resistance to change and cultural and personnel issues, particularly when integrating teams, can also hamper projects and their success.

Driving success in centralisation

Despite the challenges, there are many examples of highly successful treasury centralisation projects, whether these are fully centralised into a single global treasury centre or a hybrid approach with regional centres and local teams. Excellence in project management, including sufficient attention to cultural, technology, organisation, process and control issues are precursors to successful projects of all types, including treasury centralisation.

BOX 2. SHARING ADVICE ON TREASURY CENTRALISATION

Phase projects

"Plan project delivery in manageable phases to deliver incremental value." Christian Mnich, SAP.

This also means that longer term project objectives and deliverables can be flexed in line with evolving requirements.

Prioritise change

"Treasury projects can be diverted by events such as M&A and budgets may be channelled towards customer facing activities. Senior management needs to be committed to the value delivered by the project to avoid distraction or diversion even in a crisis." Damien McMahon, PwC

Focus on visibility, mobility and security

At their core, treasury centralisation projects should aim to deliver:

- **"Better visibility of information and faster access to data across banks and internal counterparties.**
- **Enhanced cash mobility across countries, currencies and entities.**
- **Better, more consistent controls, such as bank account management, digital signatures, segregated approvals and multi-factor authentication.**
- **Stewardship across the finance function though access to data that supports the corporate strategy e.g. the ability to create scenarios, although this can be the most difficult to achieve." Christian Mnich**, SAP

Stress test new models

"You need to be agile and prepare for external factors you can neither predict nor control. New processes, controls and operational models should identify 'what if' scenarios and test organisational readiness." Walid Shuman, BNP Paribas

In addition, Journeys to Treasury experts share their advice:

Creating opportunity for change

The COVID-19 crisis has elevated treasury's strategic role and recognition amongst senior management, which should mean that treasury is now in a better position to gain support for projects that enhance treasury's ability to manage liquidity and risk, and support the business more effectively. In the short term, the crisis may have paused or delayed some of these projects.

"Some companies have uniformly frozen all projects, some of which are important to treasury, such as centralisations, in-house bank implementations etc. However, it is unrealistic, and potentially damaging, for this to continue. Smart treasurers are convincing their boards these projects are not only self-funding but essential to develop the resilience, and intelligent control needed to help the company better survive a crisis."

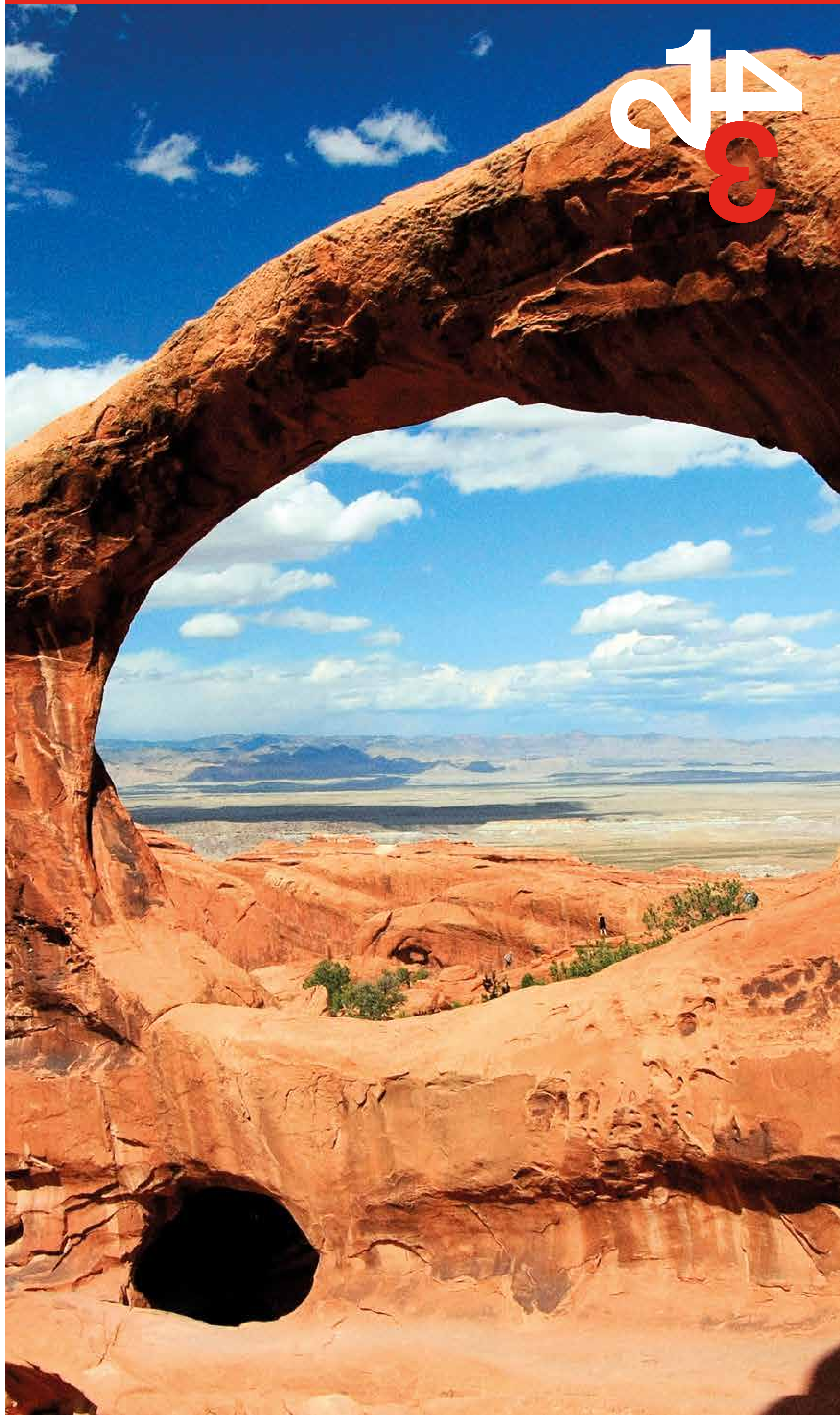
Damien McMahon, PwC

Increasingly, project restrictions are being lifted as businesses adapt to new ways of working and look forward. In addition, some treasuries are embarking on very specific projects to address particular challenges or achieve specific aims.

"We are seeing some treasurers start new micro-projects that have very specific, fast-tracked objectives e.g. increasing cash visibility, access to data etc. As we move from the initial stages of the crisis, treasurers need to get ready for new projects to prepare for the next crisis, which will undoubtedly come."

Christian Mnich, SAP

Treasury has proved its value during this and previous crises, as well as during business-as-usual. As we move towards a new, and as yet unpredictable future, treasury's ability to manage liquidity and risk and support the organisation's evolving needs will be more important than ever. Treasurers who can leverage the opportunity to drive change and improvement, which is often underpinned by centralised treasury structures, the better they can fulfil these



ENABLING
TREASURY ON DEMAND

Individuals and organisations alike are engaged in a constant pursuit of speed. Athletes strive for personal bests and world records. Engineering companies, for example, are always looking for the next breakthrough in speed and acceleration. Technology companies invest millions in faster processing chips and quicker connectivity. But how fast is fast enough? This is a question that relates to treasurers just as much as athletes and today's industry innovators. How quickly does the treasurer need to produce data, process transactions and centralise liquidity?

Digitisation has risen in treasurers' list of priorities over recent years, but expectations have been raised as new opportunities for real-time and faster payments and data flows have emerged more strongly. The COVID-19 crisis has accelerated and strengthened the business case both for automated processes, and for faster access to data for operational and strategic decision making.

"We have seen an acceleration in treasurers' digital agenda as a result of the crisis. For example, while digital signatures were previously on treasurers' 'to do' list, they have implemented these very quickly to meet changing business demands."

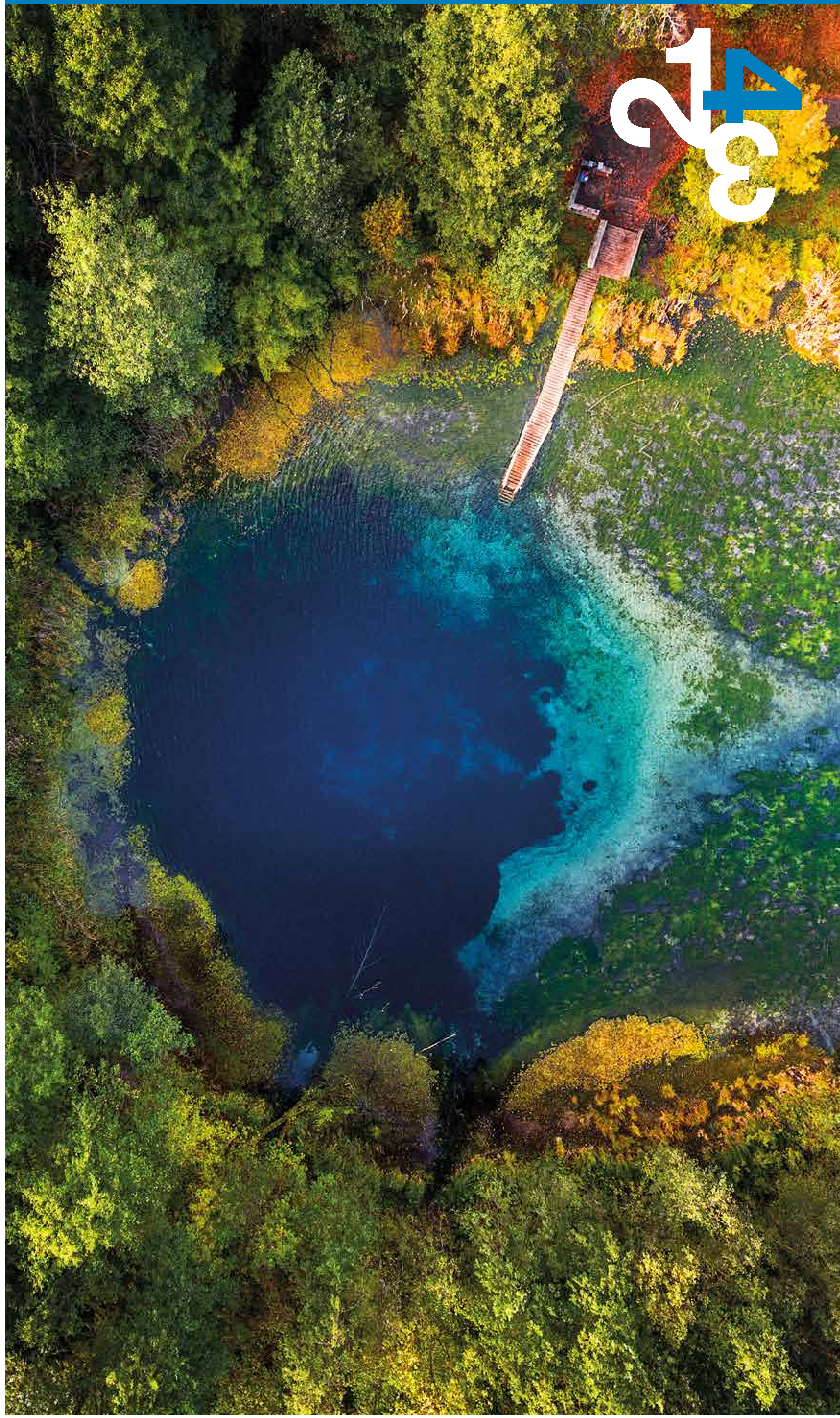
Didier Vandenhaute, Partner, PwC

For many treasurers, receiving data monthly, weekly or even daily is no longer enough: they need treasury 'on demand'.

"We see treasurers' digital priorities evolving in two key areas compared with five years ago. First, as liquidity management and cash flow forecasting have become major priorities, treasurers are seeking to obtain complete and timely access to information globally. This requirement has been exacerbated further by the COVID-19 crisis. Second, digitising payments and collections processes has emerged strongly as priorities as treasurers seek to leverage new opportunities and refine their processes and business models."

Valérie Voisin, AFTE (Association Francaise des Tresoriers d'Entreprise) and EACT

How quickly does the treasurer need to produce data, process transactions and centralise liquidity?



"Managing liquidity and risk will remain a priority, and bring challenges, over the coming months and years. Given the experiences of the early stages of the crisis, companies are likely to invest in technology to ensure efficient processes, and reliable, timely and dynamic data are in place to optimise liquidity and risk management."

Didier Vandenhaute, PwC

Exchanging data with financial counterparties

While 'real-time' payments and collections are gaining traction, with customer experience, working capital and credit advantages, not everything in treasury is required in real time. When reporting and monitoring data, 'real time' suggests the second-by-second updating of data, whether this is useful or not, and often with huge processing implications. 'On demand' implies that timely, complete and accurate data is available, whether from external sources or across the enterprise precisely when required. This has been a particular priority during the initial stages of the COVID-19 crisis,

"Timely access to data on cash positions, liabilities and liquidity forecasts has been important for many companies to be able to access government support during the crisis. This has proved very challenging in some cases, emphasising the importance of effective data management during business as usual conditions to support periods of stress."

Christian Mnich, Head of Solution Management, Treasury & Working Capital, SAP

Since the start of the COVID-19 crisis, many companies have accelerated and prioritised digital initiatives, including automating processes, digitising end-to-end workflows, and centralising treasury and finance activities to avoid non-standard, manual processes at business unit level. These initiatives may be supported by in-house banking structures and a single banking channel, such as a host-to-host connection.

A variety of factors play a role in achieving this, including efficient bank and account structures, consistent systems and formats across the business for data integration, a culture of centralisation and bank connectivity. The way in which treasury departments communicate with their banks to transmit and receive data and transactions is a crucial element of 'treasury on demand'.

"From a connectivity perspective, we are seeing significant changes in the way that treasurers seek to access data and systems. For example, treasurers were initially reluctant to use mobile devices to retrieve and action data, but this is no longer the case, as they increasingly seek the same degree of convenience and access professionally as they expect personally.

Treasurers are also demanding faster processes and access to data: not necessarily real-time, but quicker retrieval of information and a shorter lead time between events, such as collection and reconciliation."

Steven Lenaerts, Head of Product Management, Global Channels, BNP Paribas

The options for bank connectivity have expanded significantly to support these evolving requirements.

"The gateway between corporations and their banks is critical. Over the past five years, we have seen a clear trend for embedding bank connectivity into the TMS or ERP, with a single, scalable channel to support a variety of activities i.e. not simply payments, collections and bank statements, but complementary data such as bank fee information, electronic bank account management (eBAM) etc. We are also seeing a growing appetite for real-time services, such as market data updates."

Christian Mnich, SAP

The relative value of APIs

As the demand for faster access to transactions and data increases, treasurers are exploring the opportunities that application programming interfaces (APIs) offer. Indeed, most banking requests for proposal (RFPs) now ask for information on APIs. APIs allow treasurers to define exactly what data they want to exchange with their banks and commercial partners, how regularly, and what happens next with the data. This contrasts with existing connectivity methods where banks determined the choice and timing of data exchange; using APIs, it is the treasurer or finance manager that controls this. Consequently, APIs have the potential to transform the way that treasurers and finance managers consume products and services from their banks.

Treasurers in Asia are leading the adoption of APIs, driven by the growth in real-time payment and collection methods, and the adoption of digital, service-oriented business models that are centred on the customer experience. For example, insurance companies are using APIs to set up policies as soon as payment has been received, as well as accelerating claims processing and payment. Food delivery and ride sharing can use APIs to immediately trigger payments to restaurants or drivers as soon as customers have paid to allow immediate food preparation and delivery.

Real-time and faster payment and collection methods are gaining traction more quickly in some regions, such as Asia, than others, e.g. Europe and North America, where development and adoption have been slower. One reason for this is that the use of cards is more prevalent amongst consumers, and efficient electronic payment methods are already in place. However, corporate use cases for real-time payments will continue to emerge, such as for consumer refunds, expenses, instant supplier payments etc. as well as for collections. As this happens, with payments and the data that accompanies them passing across borders and clearing systems in real or near-real time, organisations will only derive the benefits if they have immediate access to this information.

While real-time payments and collections are a major driver of APIs in treasury in Asia, the increased desire for dynamic, timely information to support cash flow forecasting, streamline bank account management and update dashboards dynamically for liquidity and risk management is a global phenomenon, and a growing reason to consider API-based connectivity.

"The better the quality and timeliness of data, the more accurate essential analysis such as cash flow forecasting becomes. This has resonated strongly during the crisis as flows have become less predictable, so access to timely data during a fast-changing situation has become increasingly important."

Valérie Voisin, AFTE and EACT

Consequently, APIs are likely to become more widely adopted in treasury and finance functions, such as to reconcile flows quickly for immediate order fulfilment, trigger release of supplies on payment, and manage liquidity and risk more proactively.

Complementary connectivity

Although APIs are likely to play a growing role in shaping 'treasury on demand', API-based connectivity complements, rather than replaces, existing communication methods.

"Treasurers have various means of connectivity, whether web- or mobile-based, host-to-host, SWIFT or APIs, but these are not mutually exclusive, and each one brings particular advantages depending on the business need. For example, file-based exchange via host-to-host connections may be most suitable for high volumes of supplier payments generated by periodic payment runs, while other methods are suited to more immediate tasks such as queries and just-in-time exchange."

Steven Lenaerts, BNP Paribas

Many treasury functions have already embedded MT940 (end of day balance and transaction information) and MT942 (intraday information) messages very successfully into their processes and operations. Consequently, there may not be a compelling business case for switching to API-based connectivity for bank reporting unless there are specific gaps which cannot be resolved currently.

In addition, there will be alternative ways of achieving the same thing through different partners. For example, banks and TMS providers both offer mobile access to balance and transaction information. Consequently, treasurers and finance managers need to consider what they are trying to do, and source the most convenient, secure and frictionless means of achieving it.

Beyond connectivity

Although the way in which treasurers obtain data from its banking partners is a crucial element in achieving 'treasury on demand', there are also internal considerations that need to be addressed:

Internal infrastructure

A common challenge is lack of harmonisation and standardisation of the technology infrastructure within the organisation which creates friction in the flow of transactions and data.

"Clients are seeking to harmonise flows, standardise formats and source information more quickly, such as resolving queries. While there are a range of technologies available to achieve this, the effectiveness of these will be limited unless the underlying technology infrastructure is equally efficient. For example, many companies have multiple ERPs in place, which can make it difficult to standardise formats. Consequently, treasurers and finance managers need to look at their technology from end-to-end to identify points of friction that could hamper efforts to accelerate and standardise data and transaction flows."

Ivan Todorov, Team Leader, Cash Management Implementation, BNP Paribas

Limits to digitisation

While many companies – and countries - now accept, and in many cases prefer digital signatures, a trend that has accelerated since the COVID-19 crisis, this is not universal. In regions such as Asia, while payments digitisation and API adoption are significantly advanced, capital and currency controls, and the need for documentation on cross border flows creates significant additional requirements. While in many cases, digital solutions help to streamline the documentation process, the requirements are not consistent in each country, which can add complexity.

Lack of standardisation

Standardisation has been a long-held objective for treasurers and their banking and technology partners, but ongoing challenges remain. For example, while API implementation can be more straightforward than other connectivity methods, lack of standards can pose problems.

"Although the implementation of APIs is far quicker and simpler than, for example, host-to-host connectivity, there are still some issues to overcome, particularly for those operating cross-border, due to the lack of standardisation across countries. However, with some success in implementing standards, notably ISO XML, it is likely that we will see greater alignment across the various standardisation groups."

Steven Lenaerts, BNP Paribas

Activities such as eBAM (electronic bank account management) and KYC (know your customer) validation create major operational overheads for treasurers, delay the opening of new accounts, and create risk in the maintenance of these accounts, such as updating signatories promptly. Efficient connectivity, such as through APIs, could help ease eBAM and KYC, but again, some difficulties remain.

"eBAM is a major area where we see demand for API connectivity to exchange account and signatory data quickly and seamlessly. While APIs have the potential to improve eBAM, there are challenges to overcome around differences in system environments, making it difficult to source the necessary data points and put these into a standard format for exchange via APIs. While we are likely to see progress in this area, lack of standardisation is a significant challenge."

Christian Mnich, SAP

The crisis may help accelerate this progress.

"As the recovery starts, treasurers will be looking to open new accounts and restructure liquidity, so digitising activities such as eBAM and KYC processes will become more important."

Valérie Voisin, AFTE and EACT

Acceleration towards treasury 'on demand'

The crisis has accentuated the value of digitisation and treasury 'on demand', and this momentum is likely to continue.

"Business continuity plans have been tested to the full, including how to pay, get paid, and manage liquidity. Exchanges between counterparties, both internal and external, that cannot be supported digitally will come under increasing pressure to be digitised, as companies seek to dematerialise and fully enable remote operations."

Steven Lenaerts, BNP Paribas

Digitisation is an essential enabler of 'treasury on demand', including connectivity, core infrastructure, process automation, format standardisation and access to reporting. Treasury organisation, such as regional and global centralisation, also plays a key role, as described earlier in Treasury Centralisation in this report. The ability to access up-to-date, accurate and complete information dynamically or as required, and streamline automate processes will be essential as treasurers continue to navigate this period of unprecedented challenge.

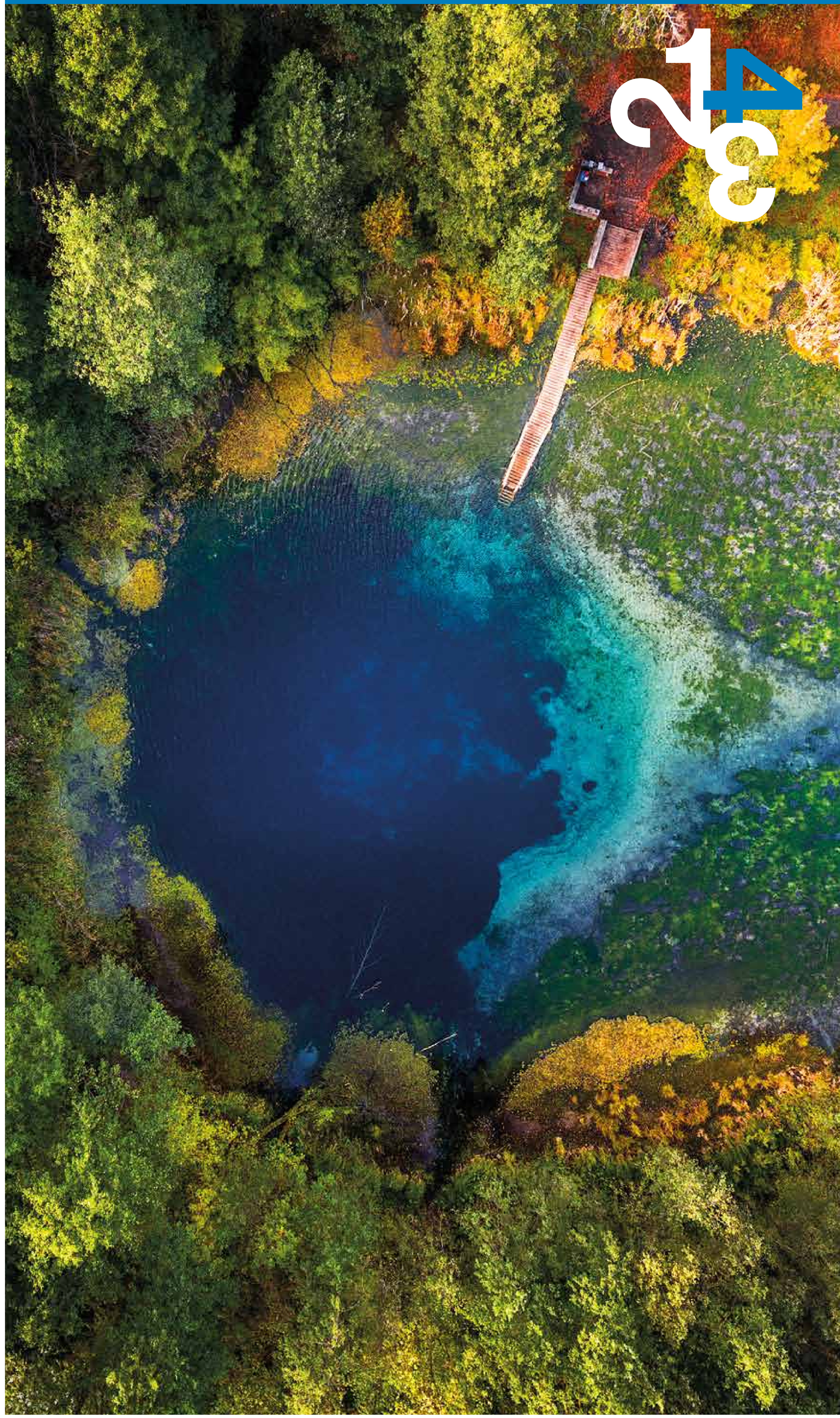
"Managing liquidity and risk will remain a priority, and bring challenges, over the coming months and years. Given the experiences of the early stages of the crisis, companies are likely to invest in technology to ensure efficient processes, and reliable, timely and dynamic data are in place to optimise liquidity and risk management."

Didier Vandenhaute, PwC

While treasurers have often struggled to create a business case and justify budgets for digital initiatives for automated processes and on demand reporting in the past, it seems likely that these barriers to investment will be lower, as treasurers re-assert the value they deliver to the enterprise.

"Treasury, finance and the board rely on mission-critical data to drive key decisions, both strategic and operational. Companies will be focusing on ensuring that this data is complete, accurate and available on demand, including remotely."

Christian Mnich, SAP



CASE STUDY

Leveraging Fintech for Reporting on Demand

Treasurers are called upon to produce reporting and information for senior management, often at very short notice, as well as fulfilling their compliance obligations, and treasury reporting and monitoring requirements. During the COVID-19 crisis, the pace of change, and therefore the immediacy with which data is now required, has added further pressure on treasurers.

While some treasury management systems (TMS) have sophisticated and flexible reporting, monitoring and dashboard capabilities, some treasurers have opted to implement an additional reporting and monitoring layer to avoid having to manipulate data within their core systems. In other situations, treasurers may choose to implement a separate reporting tool to combine data from multiple systems. In this article, Suzanne Perry, Assistant Group Treasurer at RELX, and Gregor Schwinning, Head of Fuel and CO_2 Management at Cargolux Airlines describe the value of this approach for their business using Finmetrics' FinBoard.

Suzanne Perry, Assistant Group Treasurer, RELX

"Over the past two decades, our business has been through substantial evolution, both as a result of our own evolving business strategies, but also as a result of changes in the external environment. We deal over $100bn of FX swaps and $7bn in outright FX each year, including a $1bn hedging programme, so monitoring policy and reporting are key requirements. Furthermore, changes to accounting and practices, such as the need for hedge designations for derivatives, could create a significant additional administrative and reporting effort without specific tools to manage these changing requirements.

We have had a treasury management system in place for many years, which covers all our treasury activities and offers a single source of truth. Making changes can be a major undertaking, however, and we did not want to risk disruption to the integrity of our data. Our challenge was therefore to respond to the changing internal and regulatory needs of our business, but without affecting our core technology environment. Our solution was to introduce FinBoard as an additional reporting layer. By introducing a dedicated reporting and monitoring tool, we could define and automate the reporting we needed, and provide our internal and external auditor with transparency over the data and calculations we were using.

It is not only extracting data that is important, but being able to present this in a form that is accessible and meaningful to senior management to drive decision-making. In addition to complying with accounting rules, such as hedge accounting designations, we have been able to model pension scheme portfolios, including hedging, fixed and floating mix, moved our treasury function from Switzerland to the UK, and introduced more sophisticated treasury policies, including modelling.

There were other advantages to using FinBoard. Reporting was previously a manual, labour intensive process using spreadsheets, which meant we were dependent on a few individuals to produce and refine reporting. As it was typically senior employees who did this, too much of their time was spent producing rather than analysing reports. Today, with reporting now far more automated, junior colleagues can take responsibility for this, freeing up more experienced treasury professionals to use rather than simply produce data."

CASE STUDY

Gregor Schwinning, Head of Fuel and CO^2 Management, Cargolux Airlines

"While the cost of jet fuel is a major input for a airlines, it is a proportionally higher cost for Cargolux as a cargo airline, as we do not have cabin crew. Jet fuel has been highly volatile in recent years, with the recent negative oil prices just the latest chapter. Hedging is therefore very important for us, and we have integrated our jet fuel hedging closely with treasury, which also covers aircraft financing, managing inflows across multiple currencies and global payments. Like every industry, we also need to comply with changing regulations, such as new accounting rules, and regulations specific to our industry.

We implemented FinBoard in 2009-2010 for analytics. The solution sits on top of our ERP and specialist airline software, and we integrate the output into our TMS. There were a variety of reasons for implementing a dedicated reporting tool. Reporting requests from senior management were becoming more demanding, both in the complexity of data, and expectations on timing, and we were unable to meet these demands with our existing systems. Since then, while we have upgraded our core systems, which now provide additional reporting capabilities, we are very satisfied with the infrastructure we have in place, and the level of responsiveness that a smaller vendor can offer.

The speed of change during the COVID-19 crisis has driven greater demands for meaningful, actionable data from senior management. We are already finding that data requested monthly is now requested weekly, weekly reporting is required daily, and daily reporting is on demand. With FinBoard, we have been able to meet these increased demands, which we expect to increase further.

It is not only the pandemic that is creating additional reporting and monitoring needs. We also need to analyse the effects of ongoing jet fuel and currency volatility, Brexit, changing accounting standards, and the results of the US election, for example. Furthermore, the ability to perform simulation and 'what if' modelling has become more important. With a flexible, versatile and highly responsive reporting tool, we are able to fulfil our reporting, monitoring and simulation needs today, and as they evolve in future."

By introducing a dedicated reporting and monitoring tool, we could define and automate the reporting we needed, and provide our internal and external auditor with transparency over the data and calculations we were using.

CASE STUDY

Towards a Real-Time Treasury at Nokia

Macer Skeels, Head of Treasury IT, Nokia

Real-time treasury is an aspiration for many companies, but the concept can be difficult both to visualise and deliver. At Nokia, this is becoming a reality more quickly than for many companies, with a culture of technology leadership across the business, including in treasury.

Nokia Networks was created following the buy-out of joint-venture partner Siemens in 2013, laying the foundation for Nokia's transformation into primarily a network hardware and software provider. The 2015 acquisition of Franco-American telecommunications equipment provider Alcatel-Lucent greatly broadened the scope of Nokia's portfolio and customer base. Additional acquisitions have positioned Nokia to be an industry leader in the transition to 5G wireless technology by offering the only end-to-end 5G network portfolio available on a global basis. In 2019, Nokia generated net sales of €23.3 bn, with 98,000 employees across 120 countries.

Treasury's dedicated technology team, led by Macer Skeels, builds specialist capabilities across treasury, order-to-cash, and purchase-to-pay based on its Nokia Business Live (NBL) platform. This is closely integrated with core business applications, including FIS' Quantum for treasury accounting, and the company's various enterprise resource planning (ERP) platforms. In this article, Macer describes Nokia's treasury technology vision and what this means in practice for users.

"Nokia's treasury is somewhat unusual as we have built many of our treasury technology capabilities in-house, as opposed to expanding our use of our treasury and ERP vendors, or implementing third party fintech solutions. In some respects, this is a legacy system innovation, and we might be less inclined to invest in in-house development if we were starting today; however, there have been significant benefits. In particular, we have been able to take early advantage of new opportunities, such as SWIFT for Corporates, XML ISO 20022, SWIFT gpi and latterly application programming interfaces (APIs) for bank connectivity. These initiatives, and our dedicated focus on treasury users' evolving needs, are helping us to fulfil our vision to become a real-time treasury.

Transforming Bank Connectivity via APIs

It was a relatively easy decision to replace existing bank connectivity with APIs for retrieving balance and transaction information. We already connected to our banks via SWIFT, but we found that daily account statements, which were occasionally delayed, restricted our ability to manage liquidity and risk dynamically.

We opted to maintain our existing SWIFT connection for payments, as we already had efficient processes in place, using XML ISO 20022 formatted payments on a routine basis, or MT101 messages for urgent payments. However, our treasury team has been so impressed by API connectivity for bank statements that they are looking at how APIs could enhance the payments experience in the future.

CASE STUDY

Real-time treasury is an aspiration for many companies, but the concept can be difficult both to visualise and deliver.

Implementing APIs

One of the stated benefits of APIs is the ability to implement them very quickly. With some banks that have pioneered API connectivity, this has certainly been our experience. With our first two banks, for example, we were able to conduct live communications via APIs within only seven days of receiving the specifications, and implementation was smooth and simple.

Other banks are further behind in their API strategy, however, so we are still working with them on implementation. In some cases, banks have focused first on APIs for payments, as opposed to bank statements, which can be frustrating given that for many corporations, the value proposition for real-time banking information is greater than for payments.

The value of APIs for Nokia

Using APIs for obtaining balance and transaction information has been transformational for Nokia. We now control what data we want to receive, and how often. Consequently, we are now receiving account information every ten minutes and distributing this automatically via NBL to our ERP systems. Users can instantly produce any statement they wish in real-time, with far more self-service capability than they have had in the past, avoiding the need to contact either IT or the bank.

Real-time data means that we can provide dynamic dashboards to users, with 30-40 now in place across the business. For example, today, users can see data across four banks (representing 70% of accounts) on the same screen via a real-time dashboard, an enormous benefit for managing liquidity and responding dynamically to needs across the business.

Realising the real-time vision

In addition to connecting to the rest of our banks using APIs, we are looking at other areas of treasury and finance to see how we can further remove friction and frustration for users. One such area is receivables financing, which we are aiming to digitise as far as possible in order to increase visibility over what receivables are available to sell, and communicate seamlessly with factors.

We also continue to identify and respond to ongoing needs in treasury as we increasingly function in real-time, and therefore need better, more immediate visibility over data, seamless, automated processes, and the ability to manage liquidity and risk dynamically. Real-time treasury is still a new concept, and as yet, it is not clear what the full implications will be, so we are working closely across our treasury team to understand and respond to emerging needs."

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TREASURY INSIGHTS
2020

Results of the EACT Survey

Although the EACT Summit sadly could not take place this year, 200 treasury professionals from across Europe shared their thoughts on treasury's role and priorities as part of the EACT survey. Survey responses were received between 11th March – 15th April 2020, a period which coincided with the start of COVID-19 'lockdown' for many countries. Although some survey participants responded to the survey before the official lockdown in their respective countries, many companies had already implemented measures such as stopping business travel and moving to home working. Markets were also experiencing significant volatility at the start of the survey period, and supply chains had been disrupted. Consequently, it would seem fair to assume that most people responded to the survey in the context of COVID-19-related issues.

Executive Summary

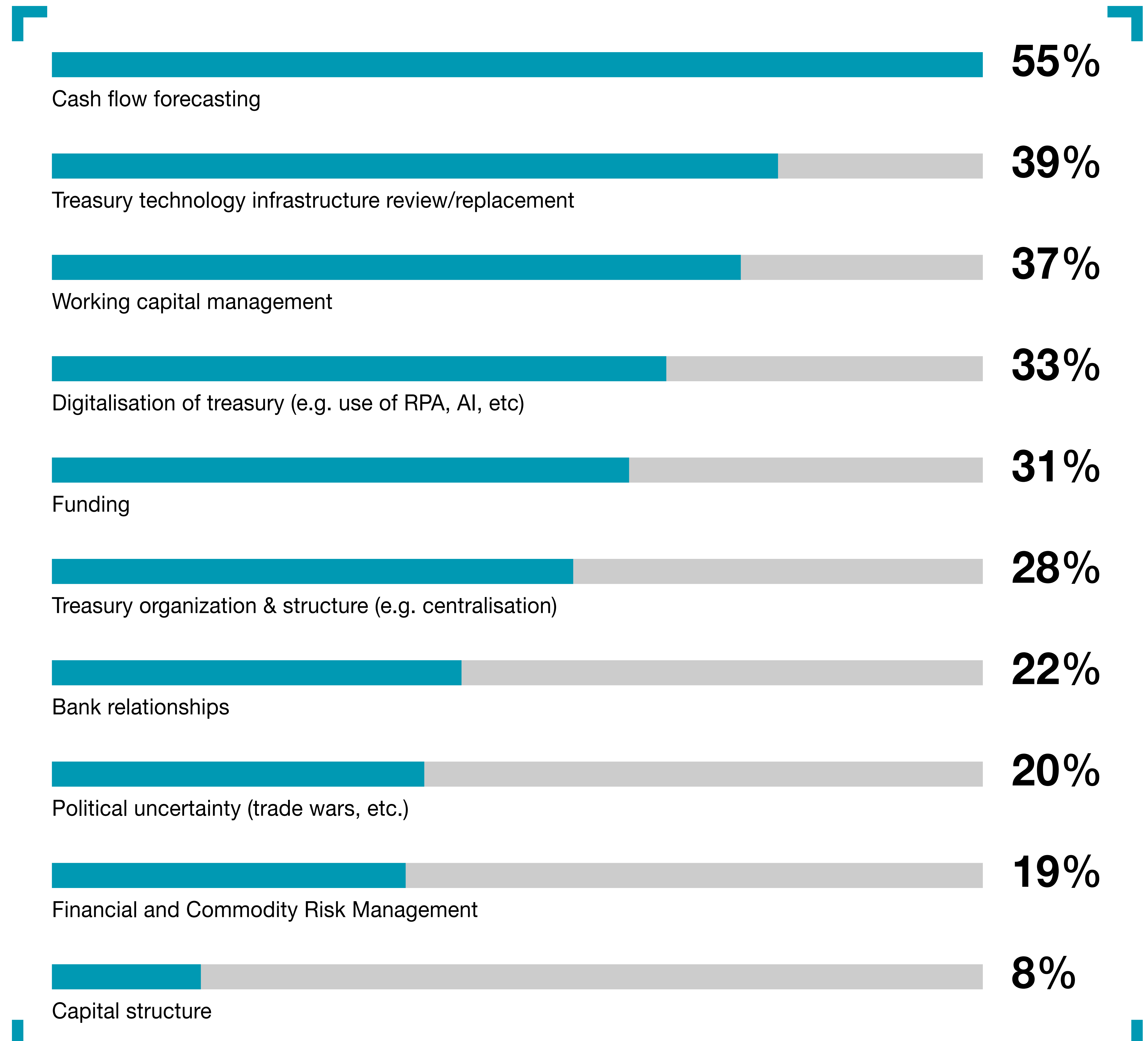
- 200 treasury professionals from across Europe responded to the survey between mid-March and mid-April 2020.
- Cashflow forecasting is the highest priority for treasury, indicated by 55% of respondents, continuing a longer-term theme, and reflecting the importance of liquidity management during the crisis.
- 62% use, or plan to use, data analytics, compared with 43% in 2019.
- 35% use, or plan to use application programming interfaces (APIs) to facilitate integration for on-demand or real-time exchange of transactions or data.
- Over half (52%) of treasurers are interested in the opportunities to exchange information in real-time information, and 47% in real-time liquidity and real-time payments and collections.
- 37% reported that working capital management is a significant priority for treasury, but over half (56%) indicated that they have either no role in working capital decision-making, or influence rather than responsibility.
- Although treasury centralisation has been a long-term trend, it remains a priority for 28% of treasurers who responded to this survey. Fragmentation and lack of standardisation across processes and controls, bank relationships and account structures, and technology platforms remain the biggest challenges to centralisation.
- Treasurers are motivated to support their companies' environmental, social and governance (ESG) agenda, but most of this involvement is at an operational level, such as shifting from manual, paper-based processes (50 percent), reducing business travel and encouraging home working (41 percent).

Treasury priorities

Cash flow forecasting was the highest treasury priority for 55 percent of respondents. This is not surprising bearing in mind that cash and liquidity profiles, supply chains and customer behaviour were already affected by the pandemic before lockdowns were imposed. The focus on cash flow forecasting is not a 'crisis phenomenon', however: the issue has consistently appeared at the top of treasurers' list of priorities, as reflected in the most recent biannual PwC Global Treasury Benchmarking Surveys in 2017 and 2019[2].

Likewise, technology and treasury digitisation, working capital management have remained significant priorities. The value of automation and digitisation has been emphasised by the pandemic, particularly as people rapidly shifted to home working, with manual, paper-based processes becoming all but impossible. Optimising working capital has become essential, not simply improving individual metrics, e.g. days payable outstanding (DPO) and days sales outstanding (DSO) but a holistic approach to optimise liquidity and increase supply chain resilience[3].

TREASURY PRIORITIES OVER THE NEXT 12-24 MONTHS



Treasury innovation

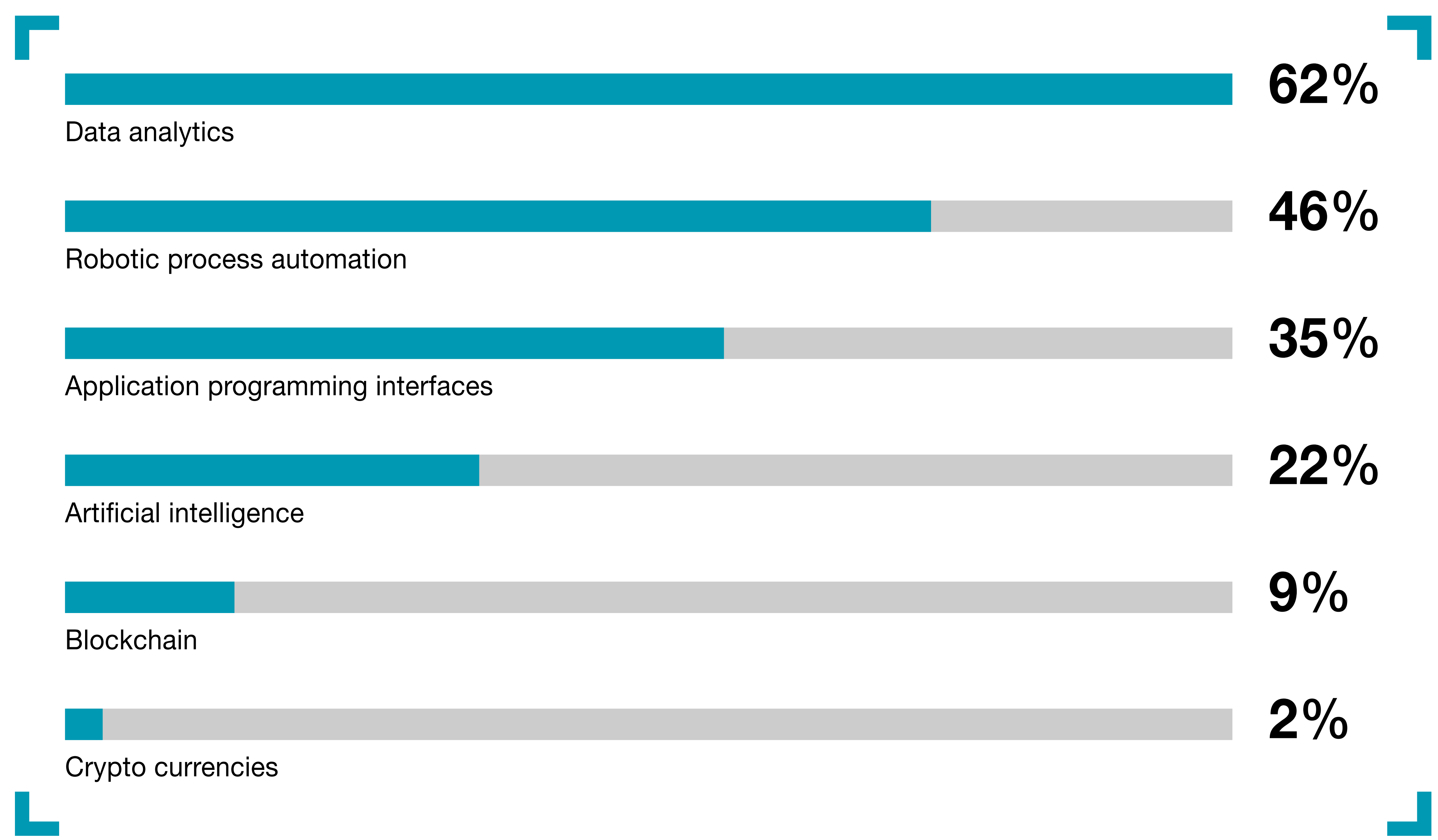
Treasurers have always been motivated and engaged by the opportunities to leverage innovative technologies to solve problems and add value to the business in new ways. Even so, there has been a significant jump in treasurers' current or planned use of new technology capabilities over the past year, a trend that seems likely to have accelerated since the start of the COVID-19 crisis. Sixty two percent of respondents noted that they are already using, or intend to leverage data analytics to create intelligent insights into liquidity and risk dynamics, compared with 43 percent in 2019. Analytic tools becoming more widely available in treasury management systems (TMS) and enterprise resource planning platforms (ERP), as well as specialist solutions. The need for analytics to understand and respond to fast-changing, exceptional market and economic conditions has also been amplified during the crisis.

Likewise, treasurers are increasingly recognising the potential of robotic process automation (RPA) to replace high volume manual input, and enrich the data on which analytics can be performed. In 2019, 24 percent of respondents were using RPA, but in 2020, 46 percent already do so, or are planning to in the short term.

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

The biggest increase in treasurers' current and planned use of innovation is artificial intelligence (AI), which has grown from 6 percent in 2019 to 22 percent in 2020. AI capabilities are increasingly part of banks' and technology vendors' solutions such as predictive analytics, cash flow forecasting, bank account reconciliation and fraud prevention tools.

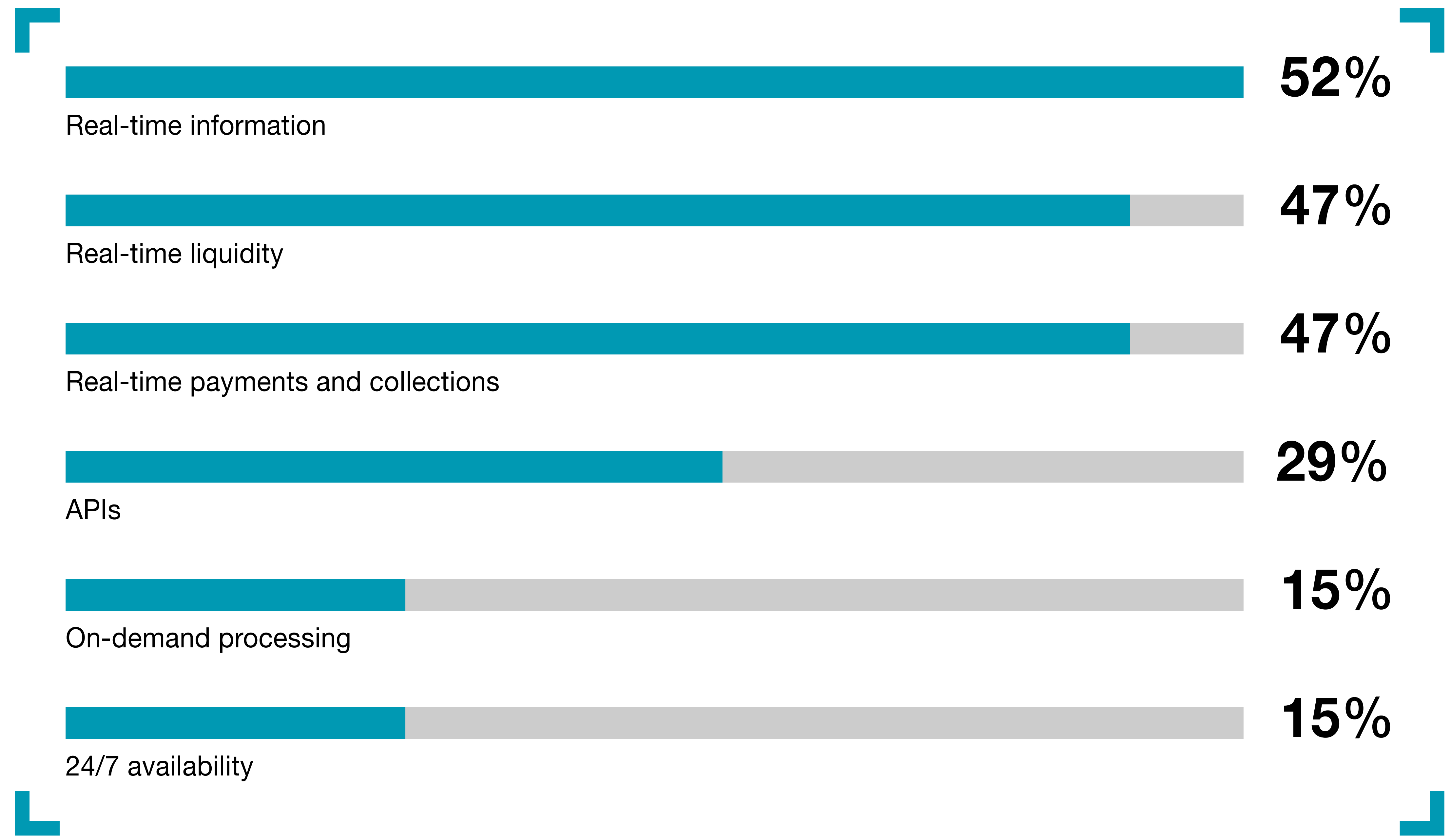
INNOVATIONS THAT TREASURERS USE OR PLAN TO DO SO OVER THE NEXT 12 MONTHS



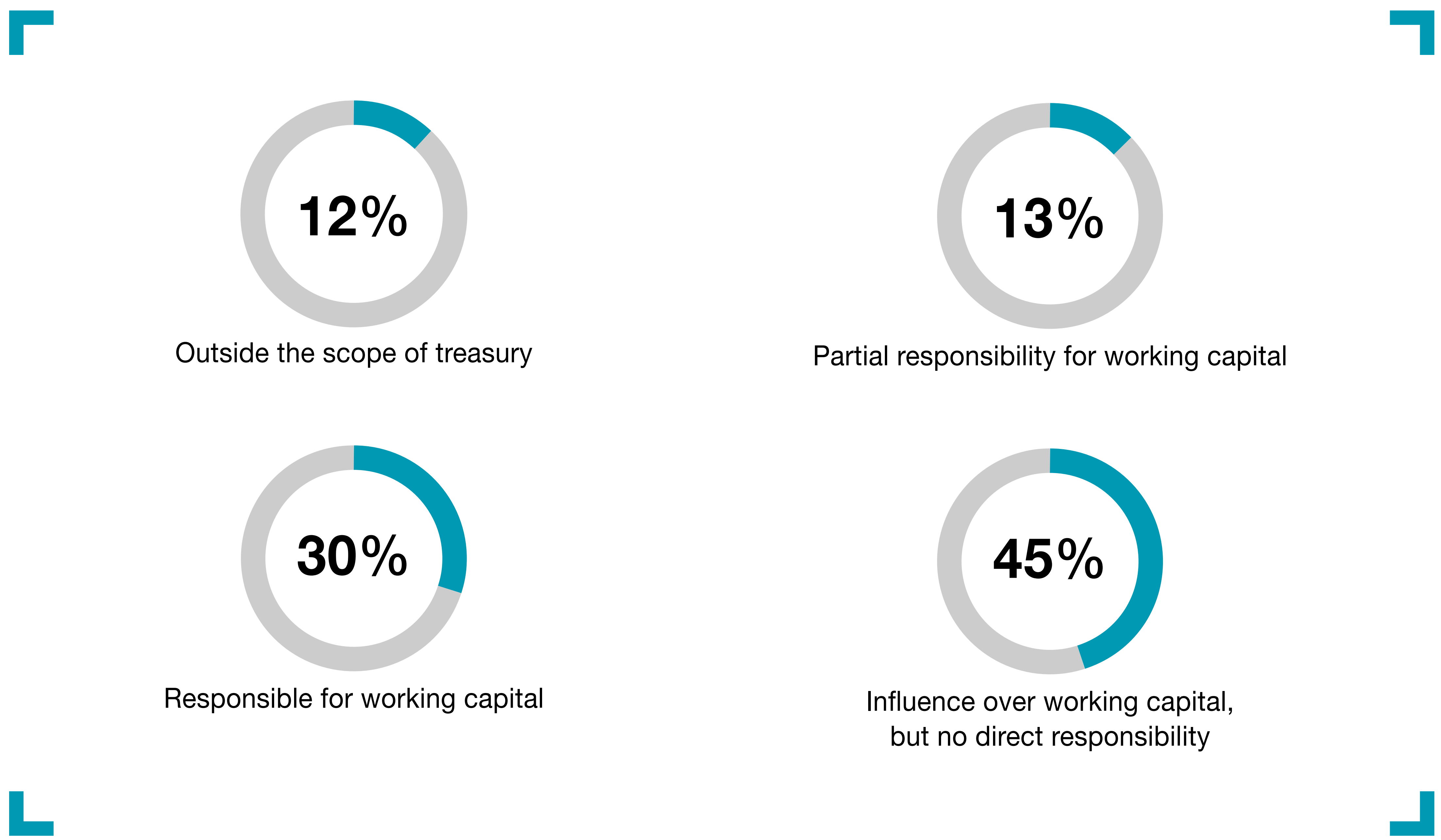
Themes of interest

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

TOPICS OF INTEREST OVER THE NEXT 12-24 MONTHS



TREASURERS' INVOLVEMENT IN WORKING CAPITAL MANAGEMENT



Involvement in working capital management

Treasurers' involvement in working capital management, and the value of treasurers' contribution in this area, is explored as one of the themes in this year's Journeys to Treasury report, and was covered in the recent COVID-19 special edition[3]. Although identified as a priority by 37 percent in the first section of the survey, treasurers report varying degrees of influence and responsibility for working capital. For example, 45 percent note that they are involved in working capital, but do not have direct responsibility. Only 30 percent are responsible for working capital.

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

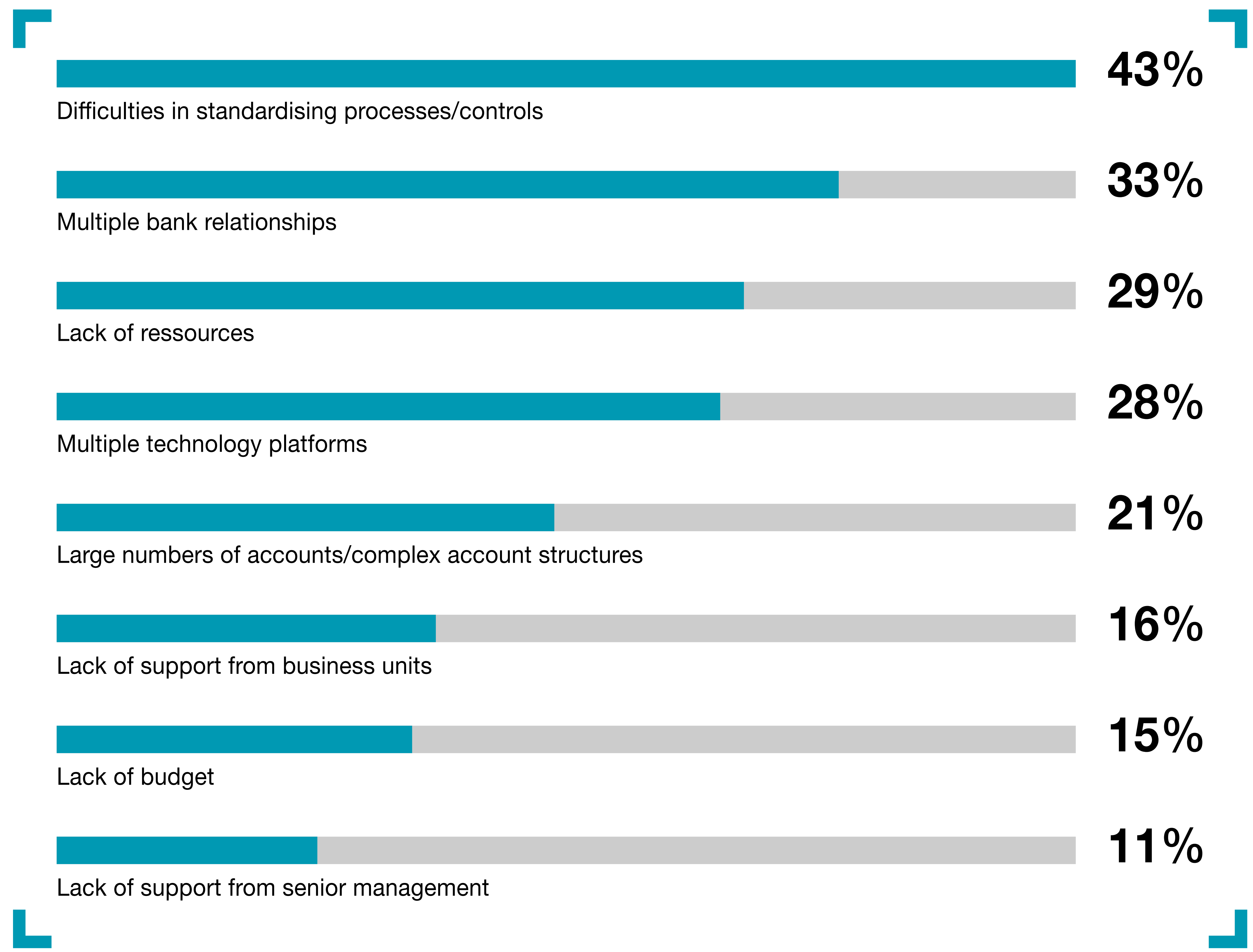
Treasury centralisation challenges

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

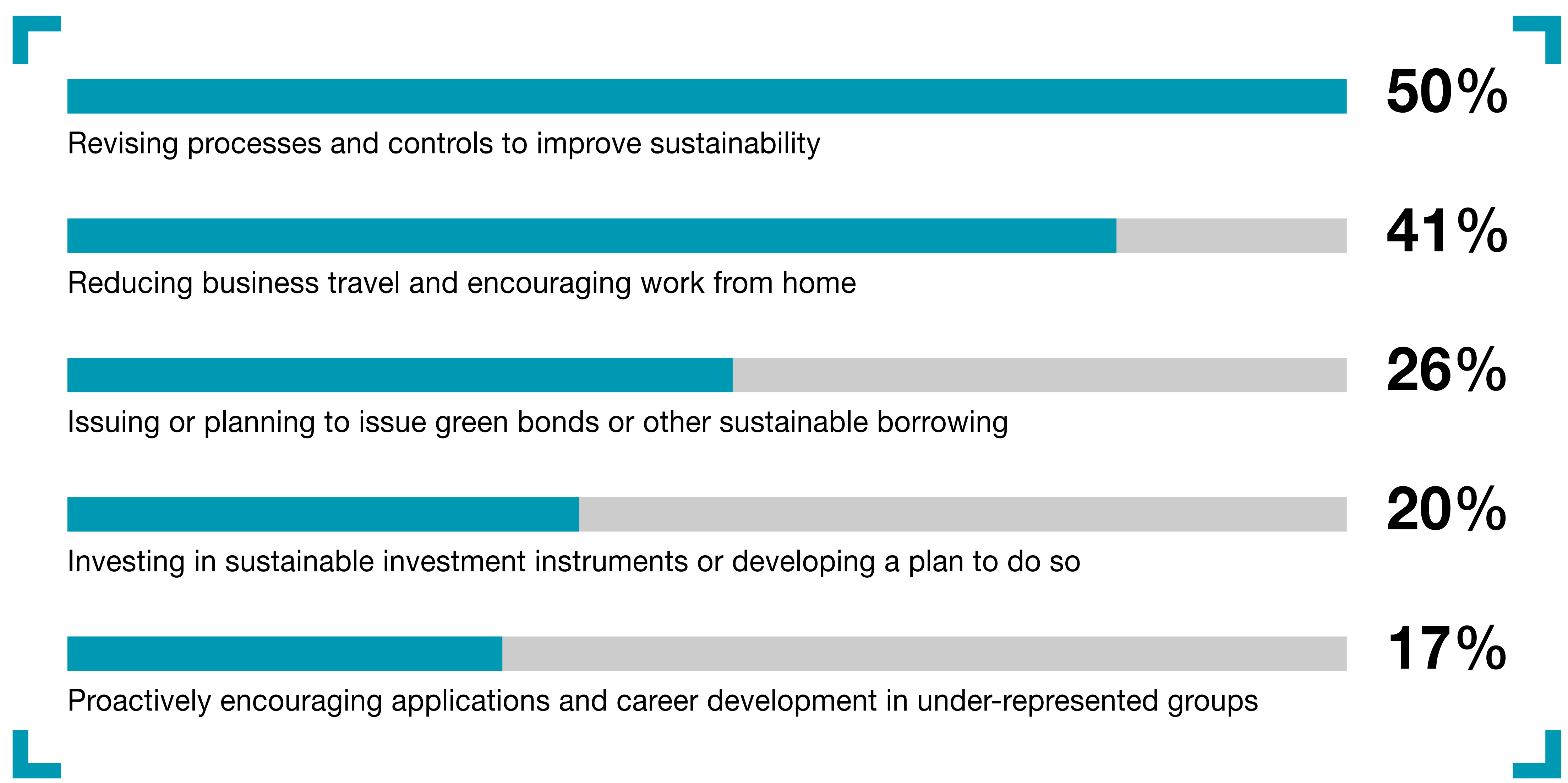
The biggest obstacles to centralisation involve problems with fragmentation and lack of standardisation in areas such as processes and controls (43 percent), bank relationships and account structures (33 percent and 21 percent respectively) and technology platforms (28 percent). Some of these issues are explored more fully in this year's Journeys to Treasury report.

Lack of resources, budget and organisational support, both at senior management and business unit level, are also obstacles to centralisation. However, the COVID-19 crisis could boost this support and availability of resources. Treasuries that have achieved a high level of centralisation, standardisation and automation have found it easier to adapt quickly to new business practices during the crisis. The importance of managing liquidity and risk at a group level has also been emphasised, particularly as many business units' liquidity position has changed markedly, making the business case for centralised liquidity and risk management more compelling.

TREASURY CENTRALISATION CHALLENGES



TREASURERS’ INVOLVEMENT IN SUPPORTING THE COMPANY’S ESG AGENDA



Treasurers’ involvement in the ESG agenda

While treasurers’ primary responsibilities are around liquidity and risk, many organisations are implementing a group culture in which every employee and department plays a role in the environmental, social and governance (ESG) agenda. While COVID-19 has diverted some immediate attention from the need to tackle climate change and environmental and social sustainability, it remains a primary strategic focus for most organisations. The survey responses reveal that most of treasurers’ involvement in ESG is at an operational level, such as shifting from manual, paper-based processes (50 percent), reducing business travel and encouraging home working (41 percent). Given that these have become normal business practice during the early phases of the pandemic, it seems highly likely that these efforts will continue and become more firmly embedded into organisations’ working cultures.

Conclusion

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

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

NOTES

1 - https://www.swift.com/our-solutions/swift-gpi/the-digital-transformation-of-cross-border-payments/document-centre

2 - https://www.pwc.com/gx/en/services/audit-assurance/publications/global-treasury-benchmarking-survey-2019.html

3 - https://www.journeystotreasury.com/special-edition

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