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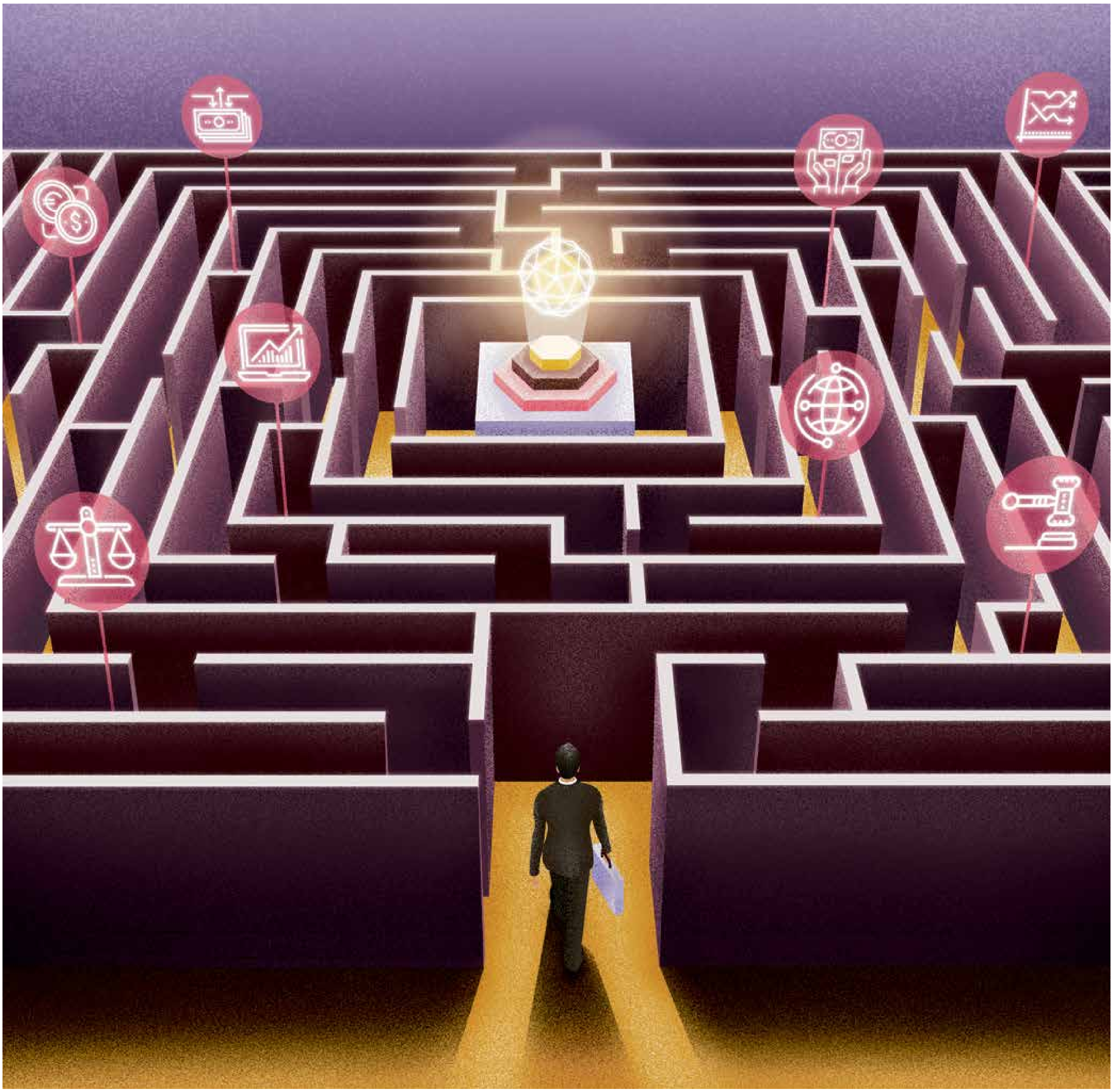
CORPORATE TREASURY



CORPORATE TREASURY

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PUBLISHING MANAGER
Marcus Pemberton

HEAD OF PRODUCTION
Natalia Rosek

PRODUCTION EDITOR
Benjamin Chiou

DIGITAL CONTENT MANAGER
Jessica McGreal

MANAGING EDITOR
Peter Archer

DESIGN
Samuele Motta
Grant Chapman
Kellie Jerrard

CONTRIBUTORS

PETER CUNLIFFE
Freelance journalist and consultant, he has worked for national and regional newspapers, as well as the *Press Association*, writing about business and finance.

CLARE GASCOIGNE
Formerly on the staff of the *Financial Times*, she is now a freelance journalist specialising in City and financial features.

ROB LANGSTON
Editor of *MENA Fund Manager*, the monthly title for the Middle East and North Africa asset management industry.

NICK MARTINDALE
Award-winning writer and editor, he contributes to national business and trade press on a wide range of issues.

CHARLES ORTON-JONES
Award-winning journalist, he was editor-at-large of *LondonlovesBusiness.com* and editor of *EuroBusiness*.

SALLY PERCY
Freelance business and financial journalist, she is editor of *The Treasurer* and former editor of *Accountancy* magazine.

CHRIS TORNEY
Freelance personal finance and business journalist, he edited the *Daily Express Your Money* section.


Bloomberg/Contributor/Getty Images

Safe hands in troubled times

When times get tough, there's one job that comes into its own – the treasurer who can make or break a company

OVERVIEW
CHARLES ORTON-JONES

Cometh the hour, cometh the hero. When sterling tanked this year, every board of directors in the land swivelled round in desperation to one person – the corporate treasurer. Who else knows about currency hedging and managing cash flow to handle income volatility? Who else can talk to banks about products to steer a balance sheet through troubled times? The treasurer, that's who.

The treasurer is that sort of role. Respected, always, but a little obscured until moments of drama, when suddenly it's the role that can save the company.

The traumas of recent years have elevated the position to one of unprecedented prestige. Just look at salaries. The *2016 Brewer Morris Treasury Survey* shows pay is soaring, with a fifth of treasurers reporting their pay has risen by more than 20 per cent in the past year. Overall 64 per cent of treasurers received a salary increase in the past year and 79 per cent were handed a bonus. That's what happens when talent gets recognised.

The diverse duties of the treasurer are what make the job special. The role incorporates cash-flow forecasting, foreign-exchange hedging, forging relationships with banks, investing funds including pensions funds, advising on liquidity, overseeing the extension of credit to customers, and hedging any and all financial risks.

And the role is expanding. Modern treasurers can't sit in their office any more. They need to march into other departments and sort them out. Rob Barnes, the founder of supply chain finance business PrimeRevenue, which works closely with treasurers, observes: “In previous years the treasury function was siloed. Now treasurers increasingly require a comprehensive understanding of the business, its dynamics and commercial objectives.

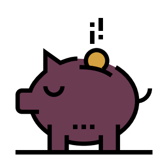
“Treasurers can use this understanding to provide a number of insights, which can be implemented into a macro view of the business. By understanding the wider commercial business, from procurement, sales and inventory to the board, treasury should be able to offer a strategic insight to the organisation.”

Rising tides of legislation keep increasing the difficulty of the job. Leslie Holstrom, global head of product at EuroFinance, an analyst house that provides research to corporate treasurers, sees this close up. “Treasury is in danger of turning into a compliance department as they grapple with more and more regulatory issues coming at them in markets across the world,” she says.

A lack of appreciation for the incredible range of duties often leaves treasury departments understaffed and grievously overworked.

Treasurers must master new tools. Data analytics is one of the fastest-moving fields right now. The goal is to harness pools of structured and unstructured data to create actionable insights. It's currently the domain of data scientists, but the onus is on treasurers to link up with these experts.

There are some great examples already. The Department for Business, Innovation & Skills provides a nice one. The department had its administration budget halved in the drive for austerity. Director general of finance Howard Orme and his team installed data analytics software to examine the performance of the entire operation.



64%
of treasurers received a salary increase in the past year

Source: *2016 Brewer Morris Treasury Survey*

The new system flags up anomalies for the team to check. It tracks activities against public and private-sector benchmarks. And it uses all available data, not just samples as with the old system. The result: cash flow is up, overheads are down and the department has withstood the slashed budget by increasing, not scaling down, its activities.

The pace of change only increases. The next big leap could be the adoption of blockchain technologies for treasury tasks. Newbies tend to associate blockchain with the notorious cryptocurrency bitcoin. It does indeed run bitcoin payments, but it is so much more than that.

The blockchain is a method of recording transactions of any kind. In essence it's an open ledger, which anyone can read. All market participants possess a copy, if they wish. And every single transaction is recorded in each copy of the ledger, simultaneously.

The variety of uses is startling. The Bank of England held a competition for the most imaginative use of blockchain. The winner was a team from the University of Edinburgh who developed a system for tracking blood in the NHS. Honduras is looking at moving property transactions to a blockchain ledger. The Nasdaq stock market is experimenting with share issuance using the technology. Blockchains may change the way treasurers write contracts, how they handle cash and authorise payments.

The value of investing in the sector underscores the hype. Juniper Research estimates $300 million of venture-capital cash went into blockchain startups in the first half of this year. One of the recent big deals was a $55-million series B investment in Ripple Labs, which created the Ripple payment system that bypasses banks. Blockchain could be one of the biggest changes to hit finance departments since the internet.

It's a daunting job description. A top-class treasurer must be superlative with numbers, a negotiator, forecaster, risk manager and sensitive enough to gather the support of colleagues in different roles, many of whom won't have the slightest appreciation of what the treasurer is trying to achieve. Boards know the value of the role. It's about time the rest of us did.

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Cash is king but finance is still available

With pressure on sterling and the UK economy facing continued uncertainty in the wake of the Brexit vote, managing company liquidity is more important than ever

LIQUIDITY
ROB LANGSTON

Bloomberg/Getty Images

Businesses have faced many challenges over financing in recent years. The financial crisis of 2008 had a profound effect on the global economy and saw the introduction of a raft of new regulations aimed at preventing further crises.

Greater restrictions on bank lending practices have made funding for all businesses more challenging and recent market volatility has exacerbated the situation.

As financing issues have become more nuanced, the role of the corporate treasurer has been in greater demand among many businesses.

"Since the recession of 2008, we've seen a rise in the demand for treasury roles, particularly as companies have been paying greater attention to their balance sheets," says Nigel Peters, managing partner at global interim management services firm Alium Partners.

"Treasury and corporate finance is a very niche area and we've seen more call for that capability, particularly now with much higher cash levels on balance sheets, or pressures created by the state of the economy or increased regulation."

New regulatory challenges have made life tougher for both banks and borrowers. The implementation of the Basel II international banking regulatory accord has had a profound impact on banks' ability to lend, as it included a number of conditions regarding the setting aside of capital.

The impact of the regulation has been widely felt, with governments around the world taking measures to shore up the banking system through quantitative easing measures. But bank risk appetite has been slow to return since the financial crisis.

Larger companies have been able to weather the changing conditions, with access to cheaper sources of finance than smaller businesses.

"Big corporates with investment-grade ratings haven't had lots of difficulties to raise financing," says Yann Umbricht, partner and UK treasury leader at consultancy PwC. "It's really easy, [companies] are borrowing for longer and cheaper than they ever did before. In European markets, corporates are borrowing at negative rates.

"Bank financing is a little bit trickier because of the regulation and there are so many capital requirements.

"For larger companies it is easier because banks are more likely to lend if you have a good rating and it doesn't cost you too much capital. If you're a riskier asset, it becomes more difficult because the bank will need a greater return and it will be expensive."

Yet lenders reported a significant decrease in demand for corporate lending from all companies, according to the Bank of England's third quarter *Credit Conditions Survey*. There was a significant increase in demand for unsecured lending from small businesses expected during the fourth quarter of 2016, however.

While the risk of investing or lending to smaller companies can be greater than well-established, larger companies, the survey noted that default rates for small businesses have continued to decrease over the past two years.

> The first thing to know about managing liquidity is to get as much cash as you possibly can

Despite bank reluctance to lend there are a number of financing options available to corporate treasurers and chief financial officers in the current climate. Interest in more established alternatives to traditional lending, such as invoice financing, has surged.

According to the Asset Based Finance Association (ABFA), the total amount of lending secured through invoice finance hit £20.3 billion in 2015-16, a record high. The UK and Ireland industry body for asset based lending and invoice financing, reported a 5 per cent increase on the previous financial year. The surge was driven by an 18 per cent increase in the amount drawn down by businesses with a turnover of more than £100 million.

"While the availability of finance from traditional sources was relatively slow to recover from the credit crunch, the asset based finance market opened its doors to businesses and there remains significant capacity to provide more finance to more UK businesses," says ABFA chief executive Jeff Longhurst.

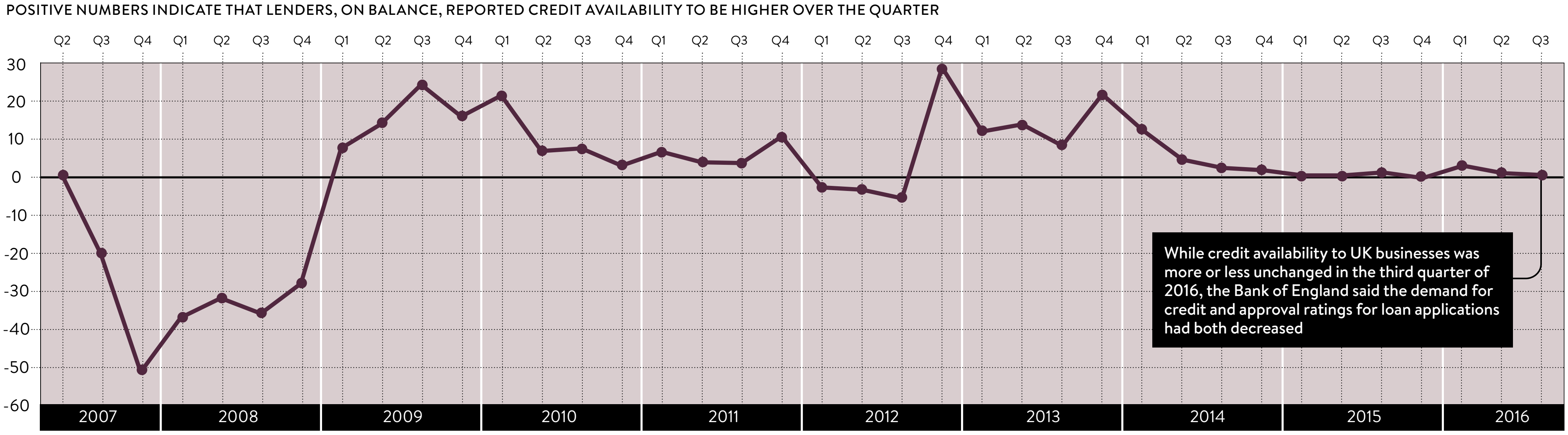
Alternative forms of financing have also grown in popularity. With businesses turning to new and emerging sources of finance to meet their liquidity requirements. In a report published by independent innovation charity Nesta, in partnership with consultancy KPMG, £2.2 billion was raised in alternative finance during 2015, benefiting 20,000 small and medium-sized enterprises (SMEs).

Peer-to-peer lending has also seen an increased number of business customers taking out loans. Data from the Peer-to-Peer Finance Association (P2PFA) showed there were 24,394 business borrowers at the end of June, up from 7,291 during the third quarter of 2014 when the trade body began collecting lending information.

Indeed, £405.5 million in new business lending was made during the second quarter of the year by P2PFA members, some of the biggest names in the sector. Cumulative lending to businesses – the total amount lent to businesses since a lender was established – at the end of the second quarter stood at around £3.4 billion, compared with £2.5 billion at the close of 2015.

A related area that has become increasingly important is the crowdfunding space, where startups and newly launched companies have been able to raise significant sums. According to the Nesta report, equity-based crowdfunding platforms raised more than £245 million in 2015, up from £84 million in 2014. Thousands of investors have put cash into these platforms, with a total of 720 businesses successfully raising cash.

CHANGES IN CREDIT AVAILABILITY FROM LENDERS TO UK BUSINESSES
POSITIVE NUMBERS INDICATE THAT LENDERS, ON BALANCE, REPORTED CREDIT AVAILABILITY TO BE HIGHER OVER THE QUARTER



Source: Bank of England 2016

CASE STUDY: C2FO

ThamKC/Shutterstock

With alternative sources of financing helping corporate treasurers plan ahead, more innovative services are emerging. One firm that has seen increased interest is C2FO, an online marketplace connecting buyers and sellers, intermediary-free.

The service pairs companies with excess cash looking to generate income at desired rates of return with others looking for funding at the rates they are willing to pay, in a process described as dynamic discounting.

"The banks would dearly love to be lending to some of these businesses, but they can't," says Colin Sharp, senior vice president, Europe, the Middle East and Africa, at C2FO, which aims to unlock some of the trillions of dollars in working capital around the world. "For a bank to lend under Basel III there is a certain asset class they have to hold back for cash. If it's a smaller unknown organisation with high growth then you have to hold a lot of capital back. It's not cost effective to go for this kind of business."

Retailer Mothercare signed up with C2FO earlier this year. "Investing in the long-term health of our supply chain complements one of the key pillars in Mothercare's six-pillar strategy: running a lean organisation while investing for the future," says group product director Karl Doyle.

Other international firms such as Costco Wholesale have also signed up to the platform, which is headquartered in the United States. The global retail giant says it has allowed it to "generate revenue from their open payables with minimal risk".

"Our partnership is a great example of what can be accomplished when thoughtful, ethical people are willing to challenge the status quo," the wholesale retailer notes.

Other sources for financing have emerged in the high-net-worth sector. Wealthy investors, such as high-net-worth individuals and family offices, looking for better returns in the low-yielding market environment, have increasingly turned to the SME space to invest in fast-growing companies at an early stage.

Looking ahead to 2017, the key challenge for firms is likely to remain Brexit. With indications that Article 50 is likely to be triggered early in the year, corporate treasurers will be forced to plan ahead for any potential fallout.

A lack of clarity over what the government hopes to secure from negotiations has led to much market speculation and put increased pressure on the value of sterling.

"In the area of treasury, the impact of Brexit was largely factored in before the vote and that was the reduction in the value of the pound; we've seen that critically more recently and the impact is now being felt even more," says Mr Peters at Alium Partners.

"From the clients we've been talking to, they are more interested in ensuring they are covering liquidity and planning their cash management. The reduction in the value of the pound has given increased impetus for treasury people across more businesses."

Ultimately, businesses are likely to face ongoing challenges in the months ahead as uncertainty continues to dog the markets. The funding challenge will differ from company to company, however there are a number of things that corporate treasures can do to prepare.

"The markets are very different depending on what your size and structure is," says PwC's Mr Umbricht. "The one thing I believe that everybody has in common is managing cash.

"The first thing to know about managing liquidity is to get as much cash as you possibly can. You reduce the need to fund your business from external borrowing.

"The second thing you need to know is what your funding and liquidity risks will be in the future. You really need to align your liquidity management and financing strategy to support your business objective.

"What is very important to remember in the current environment is that with Brexit, and foreign currency and commodities volatility, it is very difficult to predict how much cash you will generate and how much you will need."

Preparation is key. With further challenges on the horizon, corporate treasurers will need to make sure they are able to meet their liquidity requirements in the months ahead.

"With the increased pressures you're seeing on the pound now, if you're not forecasting properly and not planning ahead, it will quickly catch up with you," warns Mr Peters.

"Don't wait for it to happen to you, forward plan and forecast to optimise your cash management. You can see what's going to happen in the next six to twelve months; if you do nothing, you achieve nothing."

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COMMERCIAL FEATURE

UNCERTAIN TIMES AHEAD: WHAT DOES 2017 HAVE IN STORE FOR STERLING?

*Against a backdrop of political and economic uncertainty, foreign exchange specialist **moneycorp** looks ahead to 2017 and the future of sterling*

moneycorp

A wave of political and economic uncertainty sent the pound reeling to a 31-year low in October, prompting financial markets, businesses and investors to ask what's next for sterling?

"An unexpected win for Brexit in June signalled the start of an unknown path for the UK, plunging the world's markets into turmoil and triggering a sharp decline in the pound," says Lee McDarby, managing director for UK corporate foreign exchange and international payments at foreign exchange specialist moneycorp.

After a period of relative calm, the announcement by prime minister Theresa May in early-October that the Brexit Article 50 would be triggered by March 2017 caused panic in the markets and the pound dropped to its lowest level against the US dollar since 1985.

Mr McDarby says fears that the UK will pursue a "hard" Brexit have spooked investors and will have a knock-on effect on sterling over the coming months.

"The ramifications of Article 50 are very much at the forefront of investors and businesses' minds, and there is great uncertainty surrounding the economic fallout of leaving the single market," he explains.

"In early-July the pound staged a small recovery in the wake of the European Union referendum, in part thanks to strong economic data and monetary stimulus by the Bank of England, but this latest announcement places a huge question mark over its future as markets grow nervous about how the divorce between the UK and the EU will play out."

Now more than ever, internationally trading businesses and individuals are seeking expert guidance to manage currency volatility and moneycorp has helped thousands of customers to do this.

"In the uncertain environment, businesses are under pressure to visualise a post-Brexit landscape and demand for specialist support to maximise international payments has grown across our corporate and private businesses," says Mr McDarby. "The success of businesses to survive, adapt and grow during this period of vast change will in part dictate sterling's fortunes."

The International Monetary Fund (IMF) unexpectedly announced in October that Britain will be the fastest-growing economy this year, ahead of Germany, Japan and the United States, despite a chorus of warnings to the contrary ahead of the EU referendum. However, the consequences of Brexit are expected to take hold in 2017, with the IMF forecasting growth to slow to just 1.1 per cent and any drop in economic growth will have an impact on the strength of the pound, Mr McDarby adds.

Politics and economics are firm bedfellows and in the four months since the UK voted to leave the EU, sterling has tumbled 20 per cent against the dollar and is worth significantly less than this time last year. Fears that the UK might lose important trade deals could tarnish sterling's appeal and the government is under pressure from businesses to devise a plan that would involve advantageous trade set-ups with the EU.

"The certainty that Article 50 will be triggered in early-2017 has given UK businesses a timeline within which to work and has now arguably been priced into sterling," says Mr McDarby. "Markets are forward-looking, so the direction of sterling is now dependent upon the next big trigger and the success of the UK government in guiding the country through negotiations."

According to data published by Bloomberg, the lowest forecast of 81 major banks was for the pound to reach parity with the euro next year, marking an all-time low for sterling.

"While a weakened pound is not good news for those importing or looking to travel abroad, it would be prove beneficial to exporters, making goods cheaper for foreign investors and helping increase capital inflows," says Mr McDarby.

Of course, the performance of sterling in 2017 will also be highly dependent upon events in the EU and across the globe. The coming months will see elections in France and Germany take place, both of which have reported a shift towards right-wing politics, as well as the climax of the US presidential election.

moneycorp, which has bolstered its international footprint with expansion into the US, Europe and most recently Brazil, expects its growth to continue as demand for specialist advice increases.

"The outcomes of the French and German elections will prove a major decider for the future of Europe, and cast the spotlight firmly on the euro and as a result sterling, while the result of the US election will have ramifications on global markets," says Mr McDarby. "Depending on the outcome, the strength of the pound and exchange rates could swing either way, but it will certainly have an impact," he says.

"It is common during times of political uncertainty for a currency to weaken, which was what we saw in the 2012 election. However, the US dollar rose against the much weaker pound in 2008 at the height of the financial crisis.

"The next US interest rate decisions will also likely impact exchange rates and, while the Federal Reserve is responsible for monetary policy, decisions made by the new president will affect the economic status quo.

"A win for Trump will mean greater upheaval for policy. Trump as president would likely result in short-term fluctuations for the dollar and with it sterling as the world awaits the economic effects of his policies. The stability of the dollar would depend upon the success of Trump's first year. Should his policies prove successful, this would have a positive effect, but if they serve to insulate the US from others, the opposite could transpire."

Data compiled by Bloomberg, based upon the forecasts of 90 major banks, has suggested the sterling exchange rate could drop as low as $1.10 against the dollar in 2017.

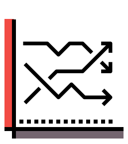
"The direction of sterling is undeniably linked to global economic factors, with the IMF highlighting its concerns of the increasing risk of global economic derailment, fuelled by factors such as the US election, a slump in oil prices and the deceleration of China," says Mr McDarby.

"As uncertainty continues to prevail, our focus is upon customer relationships and ensuring we provide the best service for our clients all over the world."

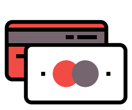
Bloomberg data: October 4, 2016

> It is common during times of political uncertainty for a currency to weaken

ABOVE RIGHT
Lee McDarby
Managing director for corporate foreign exchange and international payments moneycorp



1.1%
UK economic growth forecast in 2017
Source: IMF



20%
drop in value of sterling against the dollar in the last four months
Source: IMF

$1.10
2017 forecast sterling exchange rate against the US dollar
Source: Bloomberg

For more information please visit www.moneycorp.com or call the team on 0207 823 7800

Technology is helping treasurers stay on top

As increasingly complex demands mount on corporate treasurers, along with a growing need to glean insights from big data, technology is coming to the rescue

TECHNOLOGY
NICK MARTINDALE

The corporate treasury has quietly become one of the most essential elements of any business operation, extending its reach and remit in the wake of the global financial crisis. With this increased responsibility has come the need for effective technologies, which can help it not only stay on top of trends, but also anticipate potential changes and use them to deliver competitive advantage.

One area is that of currency. Organisations that can correctly forecast trends and devise strategies, such as hedging, to mitigate risk can not only avoid losing large sums on fluctuating exchange rates, but also improve their bottom line and outperform rivals.

"Any company that operates internationally is subject to the highs and lows of currency swings," says Antonio Rami, chief operating officer and co-founder of fintech company Kantox. "This has been even more apparent in the wake of the Brexit vote and the subsequent currency volatility.

"Corporate treasurers have become their company's commanders of foreign exchange, currency hedging and international payments, and relying on old, manual and discretionary hedging techniques simply won't cut it."

Automated systems that can create a tailored policy are now essential, he adds, whether that's through platforms which integrate with an existing enterprise resource planning system or a treasury management system.

Such packages can also help treasury functions cope with the ever-increasing volume of regulatory requirements that have emerged since the financial crash. "For multinational corporates, which now face multiple new legislations in countries all over the world, it is close to impossible to stay compliant without a reliable technology provider that can automate reporting and stay current with local legislation changes," says Henrik Crone, senior director in the treasury practice at VirtusaPolaris.

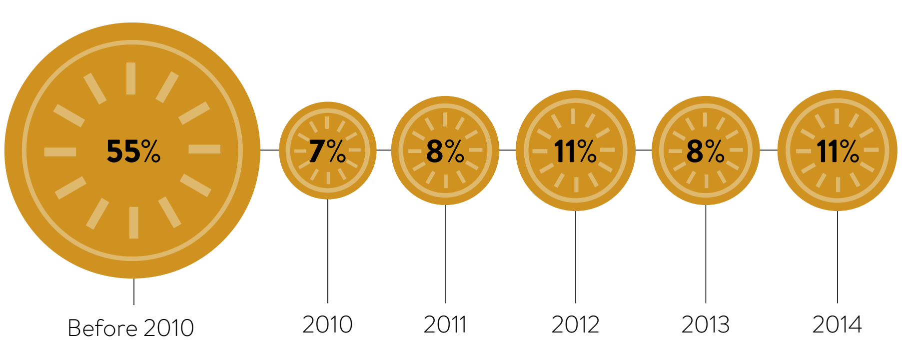
Derivative trade reporting is a good example, with organisations required to comply with the Dodd-Frank Act in the United States or the European Market Infrastructure Regulation. "To stay compliant, the treasurer needs to have staff who are knowledgeable about all of these regulations and who can monitor all changes throughout the world as they happen, while also reporting accurately on a daily basis," he says. "This is when proper automated technology is needed."

Technology is helping improve the efficiency of treasury departments, particularly as more corporate treasurers take on responsibility for strategic financial analysis, as revealed in a survey by cloud provider Kyriba, which reported an 11 per cent year-on-year increase in the number of treasurers saying this was now a core part of their job.

"This means teams can no longer afford to live with highly manual data collations and analysis, and are looking to automate and drive further value from the data collected, as well as from their transaction banks," says Alan Vear, director of Brickendon Consulting. Despite this, however, many functions still rely on spreadsheets, he adds.

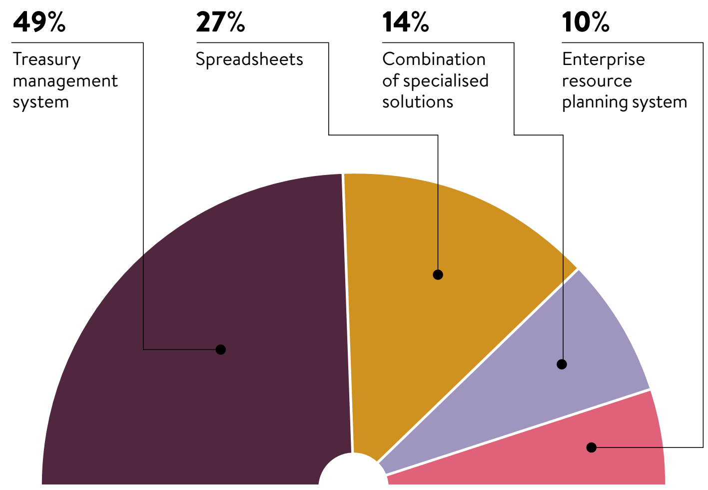
WHEN WAS YOUR TREASURY MANAGEMENT SYSTEM IMPLEMENTED?

GLOBAL SURVEY OF CORPORATE TREASURERS



Source: Reval 2015

TECHNOLOGY PRIMARILY USED BY GLOBAL TREASURERS



Source: Reval 2015

Cloud computing is having an impact here, making it easier for organisations to share data across the enterprise; something AXA UK has deployed through Anaplan's technology. "Gathering financial data across an enterprise has historically involved combining hundreds of Excel spreadsheets from around the business," says Dominic Ludden, head of group expenses at AXA UK. "Often these processes will require huge man-hours and the support of third-party companies, but the development of cloud computing is changing all this, offering a truly collaborative method of storing and presenting vast amounts of information.

"The core benefits AXA UK has derived from the cloud are speed and efficiency. Processes that had until recently taken between six and eight weeks to carry out are suddenly being completed within just a few days."

Effective use of technology should enable businesses to have better control of cash flow, ensuring the company has sufficient cash resources and lower days sales outstanding – the average time it takes to collect revenue after a sale – minimising exposure to bad debt.

> Effective use of technology should enable businesses to have better control of cash flow and minimise exposure to bad debt

"Technology that connects multiple datasets together, for instance customer data, credit bureau data, web or social and other third-party content, provides the perfect foundational platform for effective and efficient decision-making," says Tim Vine, leader of risk products at Dun & Bradstreet.

"For example, credit limits can be set based on previous trading history, industry and peer performance, and overall financial stability. Additionally, it can be used to prioritise collections not simply based on size and age of debt, but also the risk of business failure and capacity to pay." But he also stresses that human intervention will still be needed to make the final call on business decisions.

This can extend to offering suppliers financial arrangements under which a third party will provide credit based on the buying organisation's credit rating; a process known as supply chain finance. From the treasurer's point of view, this allows them to extend their own payment terms while ensuring suppliers are not put in jeopardy.

"Platforms which seamlessly link with existing accounting software vastly simplify installation, operation and reporting," says Rob Barnes, managing director of PrimeRevenue Capital Management. "Allied with fast and accurate rating of invoices, and total control over invoice management via simple and customisable dashboards, this is now a practical reality for many companies."

Technology is also helping organisations and treasury functions stay on top of expenses; a traditional headache for businesses of all sizes. Nationwide, for instance, recently implemented a new system which allows its 18,000 staff to photograph receipts using the camera on their mobile phone and then submit these through an app.

"By streamlining our expense process, we've been able to reduce errors and improve control and quality of receipts," says Muir Mathieson, divisional director of financial control and information management at Nationwide. "Our employees are happier because the process is much simpler, approval is easier and they get reimbursed faster. And our auditors are delighted as it gives them better visibility of spend for management, group tax and ultimately HMRC." The Neo Expense system from KDS now processes around 5,000 claims each month from Nationwide staff.

Further changes are on the horizon. Mr Vear foresees the use of both blockchain technology, which already underpins digital currency, and artificial intelligence on the back of advances in computing power, to examine market data and produce complex financial forecasts. "Banks and fintechs are increasingly joining forces to leverage new technologies and channels much more quickly than traditional banking practices have allowed in the past," he says. "This capability will increasingly find a home in the corporate treasurer's armoury."

Managing risks of currency m

Fluctuations in foreign exchange rates, notably the slump in the value of sterling following the UK's Brexit vote,

FOREIGN EXCHANGE
CHRIS TORNEY

The fallout from the referendum vote for the UK to leave the European Union has had a huge impact on the value of sterling over recent months. By mid-October, the pound had dropped by more than 16 per cent against the dollar and over 18 per cent against the euro since the start of 2016.

For British businesses, sterling's slump is a double-edged sword. Exporters have seen the price of their products become far more competitive in overseas markets. But for businesses which rely heavily on commodities, raw materials and other products sourced from outside the UK, costs may well have increased significantly since the June 23 Brexit vote.

Risks presented by currency movements are a fact of life for companies which operate internationally. So what can corporate treasurers do to address these risks and ensure that volatility in the value of sterling does not translate into cash-flow problems or damage to the bottom line?

"The first step in a company managing its foreign-exchange risk is understanding what its exposures are," says Karlien Porré, partner in global treasury advisory services at Deloitte. "Visibility – the ability to forecast what your currency exposures are and what is the profile of your revenues, costs and liabilities by currency – is absolutely critical."

Ms Porré says a survey of 120 global corporates carried out by Deloitte earlier this year found a majority of treasurers said visibility was the biggest challenge related to currency risk. "If you can't see what your exposures are, you can't hedge them and you can't manage them," she says.

"Once you understand the risks you face, you need to be clear about your strategic priorities and objectives, and ask what is it that we want to protect against?"

It is, she says, the treasurer's role to explain to the board of directors what the company's exposures are, and what the potential impact of adverse currency movements on its income statement, earnings per share and balance sheet could be.

The next step is to devise a hedging strategy that aligns with the board's and shareholders' attitude to risk. "You need to identify what exactly you are trying to protect in the market and in your financial results," says Ms Porré. "For example, you simply want to lock in your profit margin, so as soon as you know what your cost base is like and you have set your sales price, you will do some currency hedging.

"Or it might be that you just want certainty of your profit number and your cash flow for the next financial year. In this case, you would carry out your hedge now, but then do nothing until the next budget comes around."

On the other hand, a programme of rolling hedges, updated on a monthly basis, could be more appropriate for gaining certainty over margins, she adds.

The EU referendum campaign, not just the result, created increased volatility in sterling. But Sarah Boyce, policy and technical director at the Association of Corporate Treasurers, says that for most treasurers this was far from a new phenomenon.

"There is always something happening," she says. "Before the referendum, exchange-rate volatility, not just in sterling but across the piece, had been pretty high for some considerable period. That's a factor of political uncertainty, low-interest regimes and so on.

> Part of the treasurer's role is making sure you don't have to go into the market at a time when it could be less than ideal

"In the run-up to the referendum, most corporate treasuries would have made sure they were fully compliant with their board's risk policy, so if that policy was to be between 60 per cent and 80 per cent hedged 12 months out, treasuries would have made sure they were 80 per cent hedged, just for the avoidance of doubt."

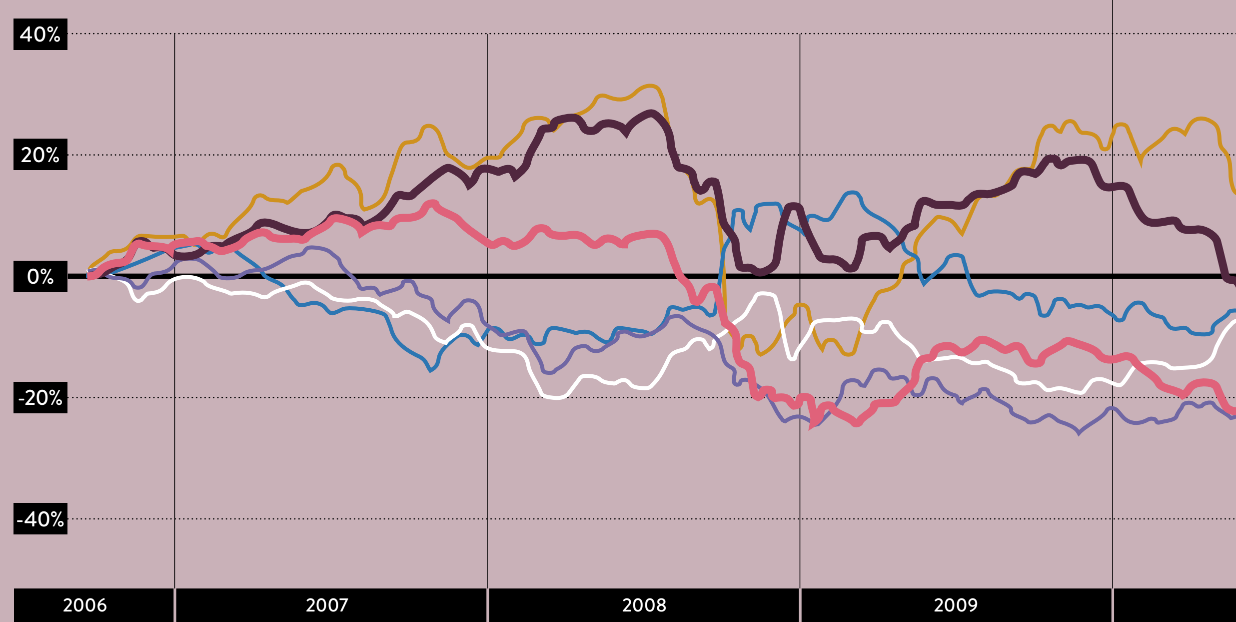
Firms that normally put their hedges on at the month-end would in many cases have brought their June transactions forward ahead of the referendum result being announced. "This would ensure they were out of the market during any period of volatility," explains Ms Boyce. "Part of the treasurer's role is making sure you don't have to go into the market at a time when it could be less than ideal."

Some businesses take the view that, despite their exposure to currency risk, hedging offers little benefit in the long run. Stephen Pugh, finance director at brewer and drinks retailer Adnams, says his firm decided in advance of the referendum vote not to put a hedge in place for the £4 million the company expects to spend this year importing wine and hops.

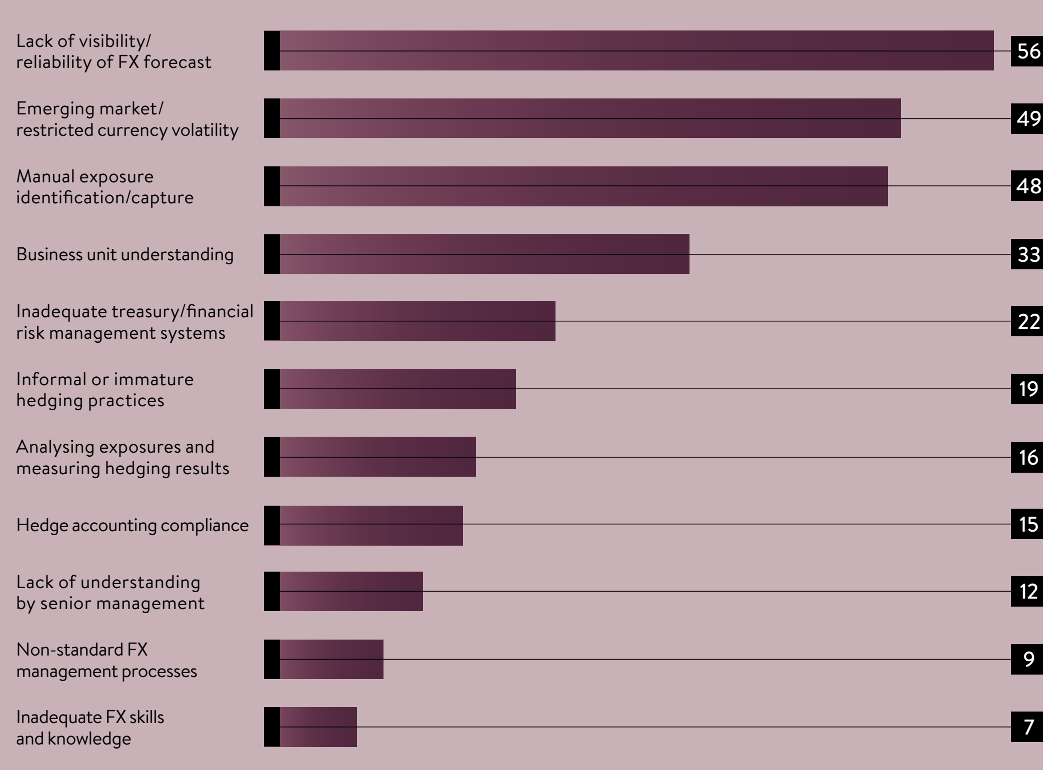
TRACKING FOREIGN EXCHAN

TEN-YEAR MOVEMENTS IN MAJOR CURRENCY PAIRS

PERCENTAGE CHANGE BETWEEN OCTOBER 13, 2006 AND OCTOBER 7, 2016



TOP CHALLENGES TREASURIES FACE IN MANAGING FX RISK (%)



Source: Deloitte 2016

CHANGES

Increased amount t is hedge

RISK MAN BY TREASU

Hedging using derivative inst

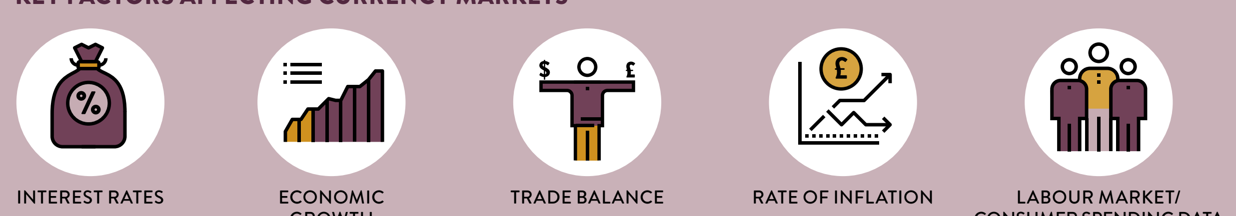
Matching costs same currency

Managing or n of exposures a

Pass-through t customers

No FX risk man undertaken

KEY FACTORS AFFECTING CURRENCY MARKETS

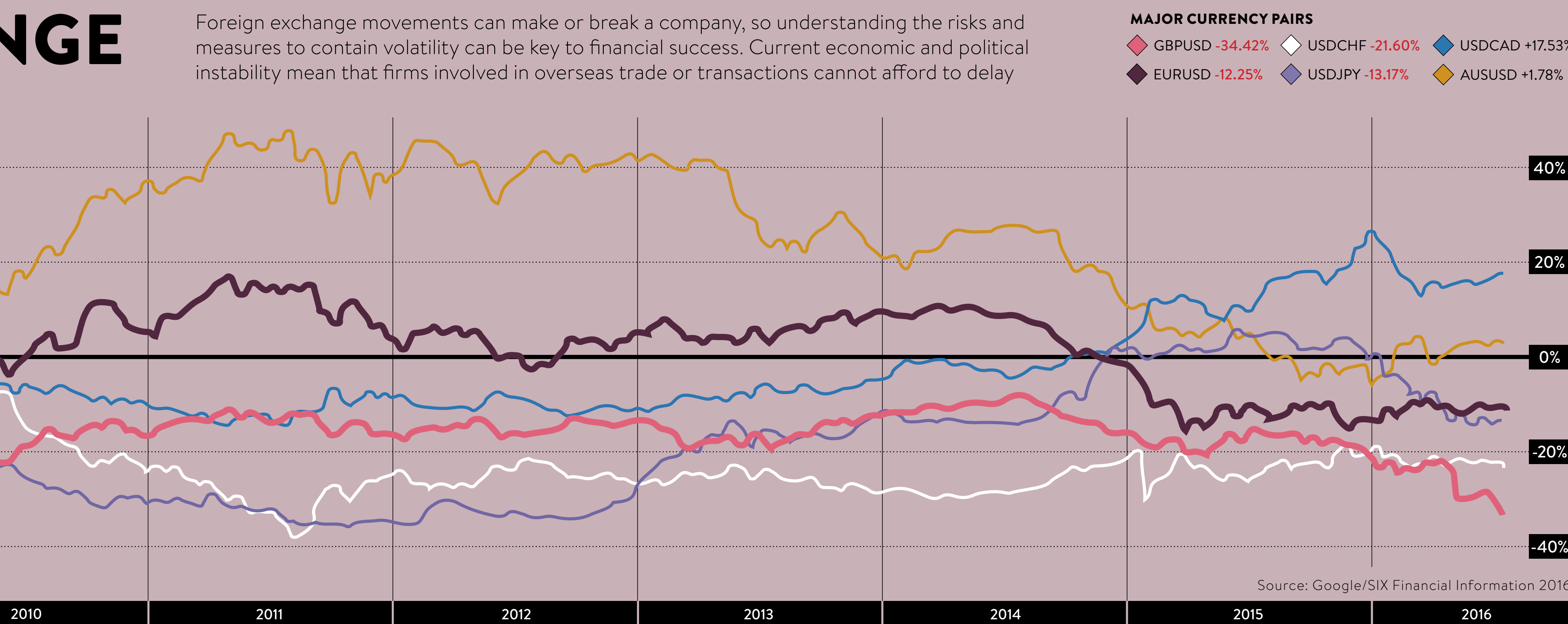


movements shifts up a gear

mean corporate treasurers may work overtime to hedge against significant potential losses

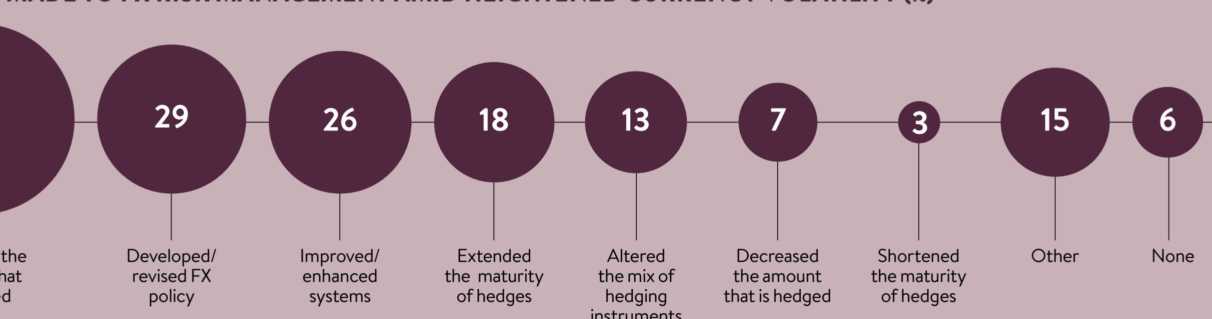
NGE

Foreign exchange movements can make or break a company, so understanding the risks and measures to contain volatility can be key to financial success. Current economic and political instability mean that firms involved in overseas trade or transactions cannot afford to delay



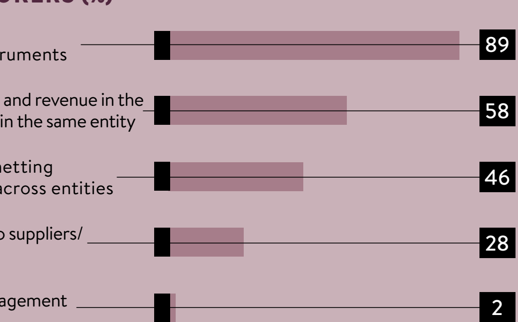
Source: Google/SIX Financial Information 2016

MADE TO FX RISK MANAGEMENT AMID HEIGHTENED CURRENCY VOLATILITY (%)



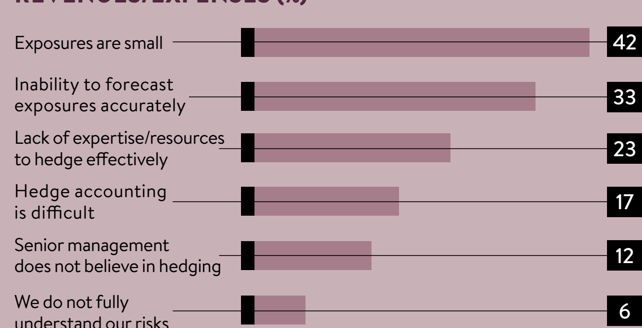
Source: Wells Fargo 2016

AGEMENT APPROACHES USED
URERS (%)



Source: Deloitte 2016

TOP REASONS FOR NOT HEDGING FORECAST REVENUES/EXPENSES (%)



Source: Wells Fargo 2016

"Our currency exposure is a pretty significant risk, but we have taken the view that we don't hedge it," says Mr Pugh. "We are a long-termist business and we make these purchases every year. What you can end up doing is buying next year's euros at this year's rate, only to buy the following year's euros and next year's rate and so on. But you've not added any value, you have only moved the point at which you've faced that particular exchange rate."

He says there is some regret in the business that it did not put contracts in place to fix the value of sterling at its pre-referendum levels. However, Mr Pugh adds: "On the other hand, we would be faced with the choice of locking in next year's dollars and euros at the rate we are now looking at or sitting tight in the hope it is going to be better than it is today – and we are not in that particular type of game.

"Because we have a consistent type of exposure, we have adopted the view that we will see the same result over the long term even though we are not consistently hedging."

In addition, Adnams does benefit to some extent from a natural hedge in that it sells beer and spirits to markets in northern Europe: sterling's fall means that its euro revenues will now be worth more.

Pawnbroker H&T also faces significant currency risk as the success of its business is largely dependent on the gold price. "The majority of the lending we do is underpinned by the value of gold and we do some gold purchasing activity," says H&T finance director Stephen Fenerty. "For us, a higher gold price is a good thing, so the weakness of sterling means that, because the gold price is pegged in dollars, the sterling-gold price has increased."

Rather than hedging the gold price on an ongoing basis, H&T manages its currency exposure through a strategy of derisking, Mr Fenerty says. "For example, we are developing a stronger gold retail proposition so that any gold we are left with, we will sell in our shop windows. Because the retail price of gold doesn't move as rapidly as the commodity value, that's effectively a direct hedge."

As the UK negotiates its post-Brexit trading position, a long period of economic uncertainty lies ahead. "For a lot of treasurers, this won't immediately change much," says Ms Boyce. "Broadly speaking they are already doing the right things."

But if sterling were to remain at its current low level for an extended period, companies may revisit their business models, perhaps by looking for alternative suppliers or by moving into new markets, she says. "Hedges may need to be adjusted to take changes in strategy into account, but I'd be surprised if any treasurers made any sudden moves."

Ms Boyce concludes: "Although there is a lot of uncertainty in the markets, it is still very much a watching period. Treasurers are naturally very risk averse, so they will not want to bounce into changing strategy without a very good reason."

Know regulations and stick to the rules

Since the 2008 recession, regulation of the financial services sector, backed up with big fines, has introduced caution, slowed up lending and had a knock-on effect throughout the economy

REGULATION

SALLY PERCY

Bloomberg / Getty Images

Treasurers must keep up to date with banking regulation and its knock-on effect on the market

Falling foul of regulators can be expensive as a string of banks have learnt to their cost. Research from policy resource centre Good Jobs First in June found that banks and other financial services firms globally had forked out more than $160 billion in fines since 2010. And that was before Deutsche Bank was told to pay $14 billion for misselling mortgage securities in the United States.

Companies are far less likely than banks to be hit with a fine the length of a telephone number. Nevertheless, treasurers still need to navigate the world of financial regulation carefully if they are to spare their employer bad press, strategic risks and unexpected penalties.

"Regulation is omnipresent," says Richard Abigail, group treasurer of engineering consultancy Arup. "Much of the regulatory pressure on us comes through the banking sector. Regulations on the banks transfer on to corporates. We have to do more and more to be regulatory compliant."

Mr Abigail cites the know-your-customer rules, which are designed to prevent money laundering, as onerous for treasury. Banks want far more detail on the company than in the past, including turnover, the countries the company transacts with at both group and subsidiary level, and heightened information about individual signatories.

Capital and liquidity ratios imposed on banks by Capital Requirements Directive IV (CRD IV) also have implications for treasury since banks are retreating from riskier markets and products, and are reluctant to hold short-term cash.

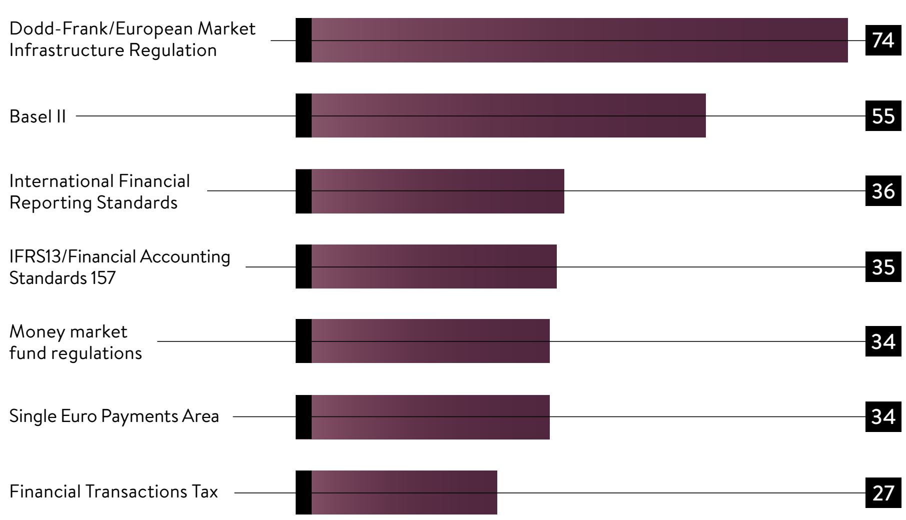
"Treasurers need to understand the impact of banking regulations on the banking model," explains Yann Umbricht, head of the treasury group at professional services giant PwC. "Because of CRD IV and other regulations, banks don't want to accept deposits and do cash-pooling arrangements in the same way as in the past. It's getting harder to access liquidity on a centralised basis and in an easy manner."

Sanctions on countries such as Cuba, Iran, North Korea and Sudan pose another headache for treasurers. Banks are very wary of processing any transaction that could conceivably put them in breach of sanctions. This is unsurprising given the US Justice Department handed down an $8.9-billion fine to French bank BNP Paribas for sanction breaches in 2014. "Trying to get a bank to process a transaction in Iran is almost impossible," says Mr Abigail.

> "Treasurers need to understand the impact of banking regulations on the banking model

PLAYING BY THE RULES AND REGULATIONS

SURVEY OF GLOBAL TREASURERS WHO LISTED THEIR TOP THREE REGULATORY CHALLENGES (%)



Source: Reval 2015

If a corporate breached sanctions, it could be fined by the US Office of Foreign Assets Control or the UK Office of Financial Sanctions Implementation. Furthermore, it would probably lose its banking relationships since banks wouldn't want to work with a company known for breaching sanctions and valuable customer relationships would be compromised.

"Our clients don't want their consultant exposed in the press as a sanctions breaker," says Mr Abigail. "So we update our policies, do education programmes and make sure that everyone internally is aware of what the sanction guidelines are. We bid for projects all over the world so it's horribly complex."

Tax is an obvious area of concern for treasurers in light of the continuing controversies surrounding multinationals such as Apple and Google. It has also been the focus of concerted international collaboration as a result of the Organisation for Economic Co-operation and Development's Base Erosion and Profit-Shifting initiative, more popularly known as BEPS. This aims to tackle tax avoidance strategies where companies artificially shift profits to low-tax or no-tax locations.

"BEPS has heightened transparency around how our inter-company loan process works," says Mr Abigail. "So our tax team is having to look at treasury transactions in a greater level of detail. We have to make sure we've got the right documents in place to support our transactions on an inter-company basis."

Where companies lack appropriate documentation, they could find that local authorities challenge their tax returns, potentially resulting in large tax bills and penalties.

"Tax has the greatest potential for financial penalties to be levied on businesses," says Bob Stark, vice president of strategy at treasury and risk software provider Kyriba. "Regulations are always changing and companies are always trying to find ways to minimise the amount of tax they pay to preserve the value of their organisation for investors. If you offer an interpretation that's not accepted by the tax agencies, you risk having to pay extra tax and a fine."

Looking ahead, there is no sign that the risk landscape is about to become any easier for treasurers to navigate. Sterling has been extremely volatile since the UK voted to leave the European Union and Mr Umbricht believes this emphasises the importance of treasurers being transparent around their currency hedging programmes.

"Some people buy shares because they want to be exposed to a particular currency," he says. "If a company hasn't told the market that it is hedging a risk, then it announces in its results that it hasn't benefitted from a currency movement due to hedging, it could suffer damage to its reputation."

Mr Abigail worries that Brexit could make it much harder for treasurers to do their day jobs. "Today we can move money across Europe without even thinking about it," he says. "Will the UK coming out of Europe result in regulation that complicates what is currently a simple transactional process?"

Protectionism is another area of concern, according to Mr Stark. "Combine protectionism with the notion that regulation solves all problems and you create a scenario where it is very difficult for everyone from the chief executive downwards to operate and plan appropriately," he says.

Given how much uncertainty exists, how can treasurers manage regulatory risk effectively? "Collaboration is your biggest friend," advises Mr Stark. "Treasury practices should not make it difficult for tax and accounting to fulfil their roles. On the flip side, tax and accounting should not hinder treasury's ability to make best use of the organisation's assets."

Mr Abigail emphasises that treasurers need to understand regulation and what their organisation needs to do to comply with it. For example, Arup built a reporting tool into its treasury management system so it could comply with the requirement to report derivative transactions under the European Market Infrastructure Regulation. "You need to understand your organisation and how you manage the risk," he says. "Then policies and procedures follow on the back of that."

Ultimately, Mr Umbricht doesn't believe that treasurers have to fall victim to upcoming regulation. Instead they can positively influence it. "Some organisations invest a lot of time in trying to influence the implications of proposed regulations," he says. "Only at that point in time can you have a say and change the potential outcome."

BETTER WORKING CAPITAL MEANS BETTER BUSINESS

Companies with good levels of working capital are often more profitable and better placed to attract investment. So how can a business increase its working capital?

Free-flowing working capital is the lifeblood of a vibrant enterprise. Companies with healthy working capital on average boast higher revenue, investment and cash-conversion efficiency, while those with poor working capital management strategies can struggle to maintain financial stability. In fact, research by PwC found that businesses with working capital in the best shape showed 14.1 per cent better cash-conversion efficiency than companies who neglect their working capital.

The cash-conversion cycle is a vital indicator of a company's efficiency in managing its important working capital assets as well as providing a clear view of its ability to pay off its current liabilities. Rumours of difficulties can harm a company's credit worthiness, as well as its brand, partnerships and appeal to talent, in addition to unnerving suppliers.

American Express® has identified three ways in which businesses can improve their working capital. The first is receivables performance. Tightening credit and collection policy can improve days sales outstanding (DSO). Increasing the efficiency and automation of payment and billing procedures is also effective.

Second, companies should focus on inventory performance. Expanding inventory requires significant investment, but freeing up capital by reducing inventory can be an effective way of improving cash flow. However, this requires maximising supply chain efficiencies and it can be affected considerably by external economic and environment factors.

The third area is payables performance. This is frequently the most neglected aspect of working capital management, much to the detriment of a business's long-term fitness. As with accounts receivable, improvements to payments and billing procedures can work wonders for a company's days payable outstanding (DPO) and remedy much of the long and short-term damage caused by working capital problems.

01
Alan Gillies
Vice president of UK sales
Commercial payments
American Express

02
Karen Penney
Vice president and general manager
Commercial payments UK
American Express

"Focusing your business's workout on these three areas and restructuring where necessary can help to bring your working capital under control, which can ultimately deliver healthier long-term financial returns," says Karen Penney, vice president and general manager of commercial payments UK at American Express.

She points out that companies across the world are putting a greater emphasis on working capital management and this is reflected in global working capital levels. According to PwC, 51 per cent of companies made improvements to their working capital management systems in 2014, with a corresponding 11.3 per cent increase in global cash levels.

"There are great rewards for companies that are prepared to embrace a strategic approach to working capital management and serious consequences for those who don't," says Ms Penney.

However, she points out that many companies may already have the cash on their balance sheets; they just need an improved working capital management programme to free it up. The value of working capital is highlighted in a 2016 American Express survey of global finance executives. It found that while they have a cautious outlook for 2016, 68 per cent of those surveyed see investing to optimise cash flow as a top priority to grow their enterprises, and deliver long-term stability and security.

GET YOUR WORKING CAPITAL IN SHAPE

01 Working capital problems are not just the domain of the chief financial officer. Developing healthy levels will require action right across the business.

02 Explore all available options, not just conventional, well-known methods. "There's a common misconception that making changes to both assets and liabilities is a zero-sum game, since improvements on one side offset improvements on the other," says Alan Gillies, vice president of UK sales, commercial payments at American Express. "This is far from the case, however, and businesses must be prepared to address all areas of their organisation that relate to working capital."

03 Restructuring can be challenging and costly in the short term, but it can offer benefits. American Express offers cost-effective and efficient services to maximise the potential capital from payments and supply chain procedures. "For example, our working capital services can be fully integrated into your existing payment process to balance the interests of the company with those of the supply chain, leading to stronger and more reliable payment systems, as well as improved relationships with your commercial partners," says Mr Gillies.

> "There are great rewards for companies that are prepared to embrace a strategic approach to working capital management and serious consequences for those who don't

CASE STUDY: 'IN OUR BUSINESS POSITIVE CASH FLOW IS ABSOLUTELY KEY'

WESTCOAST passionate about *distribution*

Westcoast is a fast-growing electronics distributor that is consistently ranked in the *Sunday Times Top Track 100* of the largest privately owned UK companies. "In our business positive cash flow is absolutely key," says chairman Joe Hemani.

American Express payment solutions offer Westcoast a payment period of up to 58 days, considerably longer than the conventional arrangement with suppliers. As a result, days payable outstanding are increased and Westcoast has been able to optimise its working capital.

The company can also access the multi-million-pound credit facility that it has with American Express in order to buy at competitive prices and meet customer demand. Thanks to the electronic payments solution, Westcoast receives payment five days after its customers' authorisation, which is faster than conventional invoice terms.

"At American Express, for example, we offer companies a variety of working capital solutions to help companies boost their liquidity and ultimately their profitability," says Ms Penney. "We provide them with access to benefits such as extended payment terms, increased DPO and extended payment periods for buyers, while also guaranteeing accelerated payment for suppliers. Optimising your payment periods in this way frees up much needed cash, while also facilitating better working relationships with suppliers and customers. Cash is available sooner, for longer, giving companies the control over their payments needed to achieve efficiencies."

Improving working capital management can bring substantial gains and, as Ms Penney, says: "The earlier you invest, the better you'll be able to manage the changes to your working capital that come with increased growth."

www.americanexpress.com/uk/supercharge

COMMERCIAL FEATURE

ACCURATE DATA PROTECTS AGAINST THE HIDDEN COSTS OF DELAYED PAYMENTS

As organisations extend supply chains, utilise more global workforces and expand into new markets, those that strategically manage their international bank and payments data can achieve greater efficiencies while reducing payments risks

ACCUITY

Bankers
ALMANAC

Globalisation is accelerating the flow of people, goods and services, capital, energy and information across country borders. While this leads to many new opportunities for businesses, it also magnifies the challenges faced by corporations to send payments to a range of international recipients. Treasury and payments teams must look out for new global and regional regulations, address ever-changing country-specific payments processing nuances and know when information needs to be provided in a local language.

Beyond these external challenges, reduced liquidity and enhanced volatility means treasury is tasked with managing cash and financial risk more efficiently. Yet this can prove difficult when internal manual processes and data decay leave treasury's payments reference database cluttered with inaccurate, incomplete and non-standardised information.

Yet the ability to access accurate data and ensure payment delivery has become more crucial to business success. More and more companies are finding the cost of delayed payments extends beyond bank rejection and repair fees.

One of the more evident costs of inaccurate data, payment failures can cost as much as £40 each in bank rejection and repair transaction costs. Even with a more standard charge of £10 per rejected item, a manufacturer making 500,000 payments a year with a rejection rate of 10 per cent would find itself facing an annual cost of £500,000 alone, before the impact of additional employee resources required to research these failures is taken into account.

There are other, less obvious implications, too. Bad routing data and broken payments can cause delays in the supply chain, meaning critical aspects of the production process can grind to a halt. For one corporation, a failed payment that took 24 hours to manually repair resulted in $250,000 worth of lost revenue. Such situations can impact relations with key suppliers and could result in losing negotiated discounts on account of missing payment dates, as well as increased calls to payment teams.

Moreover, failed payments can affect the trust that your vendors and customers have in your business, and may also leave it with a poor reputation. In some regions, even a few missed payments can damage the reputation of an organisation enough to dissuade vendors from partnering with them. In many cases, the costs of these lost opportunities can far exceed bank fees and additionally be far more disruptive to growth of the business.

From a treasury perspective, delays in time-sensitive securities transactions designed to help manage liquidity or funding, such as the overnight repo or short-term commercial paper markets, can lead to higher interest payments, increased transaction costs or more critical liquidity issues. Bad routing data can also impede the ability to collect receivables via direct debit, creating cash-flow issues and potentially forcing organisations to rely on more expensive credit lines, and even raising the spectre of being unable to pay employees.

To overcome both these overt and hidden risks of delayed payments, increased attention has been given to best practices for enterprise resource planning (ERP) and data management. As well as helping to ensure accurate and timely payments, working to establish data standards can deliver other benefits.

> Accuity's Bankers Almanac for Payments brings accurate bank and routing data into the core of an organisation's ERP database

"Payment data standards also help organisations create more streamlined onboarding for vendors and customers," says Sarkis Akmakjian, senior director of product management at Accuity. "Improving this process means a shortened time to send and receive payments, and increased cash visibility for treasury."

Furthermore, the use of standardised payment data combined with standardised messaging formats, all travelling through reliable networks, promotes e-invoicing and allows a company to discover untapped liquidity. "Ultimately this can lead to better supplier relations, more competitive terms and bottom-line improvements," he adds.

Still, the driving force for these new processes is the need for accurate, standardised payments data within the core ERP system. "It is critical this data is accurate at the source, given this same data is used to populate messages going through networks that reach partner banks," warns Mr Akmakjian. "Errors in this data can lead to payment reversals, which have costly consequences to the organisation."

Multinational organisations need to ensure they are able to offer global coverage for any payments, and include national bank codes, SWIFT and BIC codes, as well as normalised bank names and location details. Data should be constantly updated and available, when necessary, in local-language character sets.

Thus, the myriad challenges that corporate treasury faces in sending payments to global recipients is greatly eased by comprehensive and current data in their core ERP system. When businesses feel confident that they can process transactions anywhere, then they have the ability to take advantage of growth opportunities while avoiding the risks of failed payments.

Accuity's Bankers Almanac for Payments brings accurate bank and routing data into the core of an organisation's ERP database. With these solutions, companies can confidently process payments throughout the world. Trusted by financial institutions worldwide, Bankers Almanac supplies payments data that limits bank repair fees and ensures payments go through first time. With over 140 data professionals working in 19 languages, businesses which partner with Accuity can more readily take advantage of new markets, clients and suppliers.

As a global registrar for bodies including the Official Registrar of Routing Numbers for the ABA and as the official provider of the EPC SEPA Adherence database, Accuity collates financial data from multiple sources worldwide and adheres to a strict data collection methodology for all products. To find out how Accuity could help improve your payments efficiency visit www.accuity.com


Thomas Barwick / Getty Images

Finding a smart way to manage assets

With interest rates at historic lows, cash-rich corporates face a difficult challenge to put their cash deposits to work and generate a worthwhile return

ASSET MANAGEMENT
CLARE GASCOIGNE

Corporate treasurers have long memories. The financial crisis of 2008 may be nearly a decade ago, but its effect is still being felt in the disposition of cash. According to a 2016 survey from the Association for Financial Professionals, the most important objective of an organisation's cash investment policy was safety for a whopping 68 per cent of respondents; yield was the driving factor for a mere 2 per cent.

That may be partly because it's so hard to find anything approaching a decent return. Stephen Baseby, associate policy and technical director at the Association of Corporate Treasurers, says: "We have ludicrously cheap long-term rates, but even more ludicrously low short-term rates. No one wants to hold money or to lend – people are reluctant to take a risk. Corporates have lived with the cost of carrying cash for so long, minor movements are not likely to make them change their behaviour."

Cash-rich corporates have had a few options in their armoury for the past few years, such as notional pooling, where bank account balances are offset against each other with interest paid on the net amount, but increasing regulation is making life more challenging. Basel III – a global reform framework that has increased banks' own funding requirements and liquidity needs – may be necessary from a global stability point of view, but has lessened the banking industry's appetite for certain types of deposit, in particular non-operational cash.

"It's driven a change in the behaviour of banks," says Jennifer Doherty, global head of commercialisation, liquidity and investment products at HSBC. "The liquidity coverage ratio [which measures what types of deposits would remain on a bank's balance sheet over a 30-day period in the event of a stress scenario] is a key measure for us and that may affect what a bank will pay for deposits."

But Ms Doherty argues that bank deposits are still key to cash management for corporates. "There's still an appetite for notice accounts, because you know where the money is, you know who the counterparty is, you know it's safe," she says, adding that the industry is bringing to market a raft of new products that allow banks to maintain their new liquidity ratios and still offer useful products for the corporate treasurer.

But there are different options coming through as well, according to Yann Umbricht, partner in the treasury and commodity trading group at consultants PwC. "For a company to be able to invest, someone else has to want to borrow," he points out. "Big companies may have lots of cash, but smaller companies have either limited access to capital markets or have to finance expensive funding. It's a great idea to put these two sides together."

> "No one ever got fired for losing a few basis points of interest, but they do get fired for losing the money

The proposition is that big corporates should help suppliers further down the food chain by paying bills more quickly, in return for a discount. Nothing new in that – discounts for early payment and factoring have long been used to improve cash flows, but now fintech companies are coming up with clever ways to automate the process through the blockchain and on a grand scale. This is discounting that requires no human intervention, but is a fully automated process.

"It's quite complicated and requires an electronic agreement that forms the basis of the discounting," says Mr Umbricht. "You need a sufficient number of suppliers to make this work – perhaps several thousand – but we are having a lot more conversations around this concept than 18 months ago. It's a solution that doesn't increase your credit risk, though it does affect your working capital."

Of course, a key element for any corporate treasurer is the need to diversify risk. "No one ever got fired for losing a few basis points of interest, but they do get fired for losing the money," says Mr Umbricht.

Money market funds (MMFs), which typically invest in commercial paper, treasury bills and certificates of deposit, are still an option, but again legislation and regulation is limiting the appeal. In the United States, MMF reform came in this month, while the European Union's MMF Directive, which blocks or slows redemptions in times of stress, is currently working its way through the legislative process, potentially by the end of the year.

So with bank deposits yielding very little, MMFs losing appeal and supply chain programmes effectively restricted to the big corporates, the only real alternative are repos or repurchase agreements, according to Mr Baseby. "It's a market that we could see develop, with corporates effectively lending to their bank or perhaps to pensions funds, which sometimes have short-term cash needs," he says.

Mark Lewis, head of product management in corporate treasury at Bloomberg, says the pressures that have limited options have meant an increase in merger and acquisitions activity, "while more should be done to invest in the business itself, taking on more risk". He adds: "But that seems to be the last thing businesses want to do, given the uncertainty of the outlook post-Brexit for the UK, and given stagnant growth in Europe."

Mr Baseby agrees. "[Regulation and legislation] have created a very good environment for financial stability," he points out, "but it is creating financial sterility."

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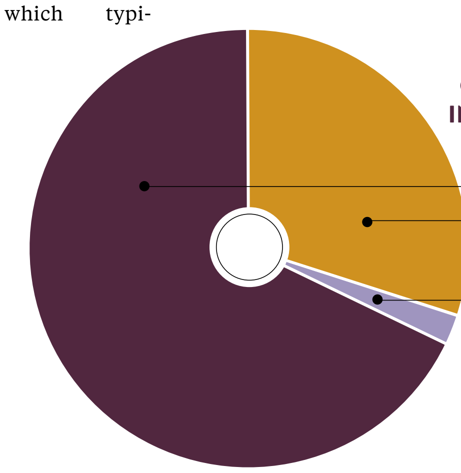
TREASURERS' MOST IMPORTANT OBJECTIVES OF CASH INVESTMENT POLICIES



68% Safety
30% Liquidity
2% Yield

Source: Association for Financial Professionals 2016

CASE STUDY: eBAY

Ken Wolter/Shutterstock

Short-term liquidity at eBay used to be a labour-intensive process, with surplus cash manually moved from an operating to a savings account. "The places to park cash and pick up favourable yield have become increasingly sparse," says Anderson Childress, senior treasury analyst at eBay.

The company chose to implement a digital solution from HSBC, which automates the flow of cash between on and off-balance sheet investment, moving surplus cash into two pre-chosen money market funds.

"Traditionally it has been incumbent on the treasury department to manually invest surplus cash," says HSBC's Jennifer Doherty. "But due to increasing cash balances and shrinking investment options this has become a far more challenging task. We need to find ways to free them from the daily process of cash investment and allow them to focus on adjusting their investment policies."

Mr Childress says: "For the first few months, we kept a close eye on our cash levels and investment, to make sure our parameters were correct and that we didn't incur any unnecessary fees or charges. But since then we have been hands off and let it run in the background."

The programme has freed up time for the treasury team, since analysis reports for senior management are generated automatically. Mr Childress adds: "That has enabled us to focus on more value-add strategic matters."

Linking firms with supply chain finance

Technology is steadily replacing the blizzard of paper needed to manage supply chains, switching the focus to how tech can unlock cash tied up in the system

Uber Images/Shutterstock

SUPPLY CHAIN FINANCE
PETER CUNLIFFE

Globalisation has driven innovation in the physical supply chain where technology has been widely applied to improve efficiency, replacing the traditional paper trail associated with procurement, stock management and invoicing.

In the wake of the financial crisis, heralding an era of low interest rates, weak growth and a scarcity of bank funding for smaller companies, cautious corporate treasurers have been forced to be more imaginative in the search for ways to improve cash flow and manage risk.

Their focus has turned to ways of harnessing the working capital lying dormant in the supply chain, looking beyond traditional trade finance techniques such as factoring or invoice discounting where an invoice is sold to a third party at a discount.

The past decade or so has seen the evolution of so-called supply chain finance in which buyers, suppliers and finance providers are connected through sophisticated software systems that automate and streamline the payment process.

Although the term can be used to cover a broad range of finance techniques, it generally applies to the system that allows a buyer to pay a supplier early in exchange for a discount either directly or tapping funds from a bank or other finance provider, which will set their terms based on the credit rating of the buyer company.

Sometimes referred to as reverse factoring or approved payable finance, it offers the supplier the benefit of improved cash flow, usually on better terms than a bank loan, while the buyer benefits from putting its surplus capital to good use or preserves its cash by using an external funder, gaining a discount in the process.

$1.8trn
estimated value of the supply chain finance market

Source: McKinsey 2015

The big development over the past decade or so has been automation of the process, speeding up payments, reducing the risk of errors from manual handling and above all strengthening the supply chain by reducing the danger of one link breaking because of a shortage of working capital or an inability to secure finance.

For large companies, forging better relationships with suppliers is often a key goal of corporate and social responsibility policy, particularly given the political sensitivities over the vulnerability of small firms to any increase in payment times by bigger companies.

Stephen Baseby, associate policy and technical director at the Association of Corporate Treasurers, says: "Supply chain finance is a term that has come into use as software has developed and created an end-to-end flow.

"We have a situation today where big business can get access to ridiculously cheap money, while smaller businesses are watching their costs go up and up. Supply chain finance can help massage that and assist with liquidity."

A study by McKinsey in October 2015 estimated that supply chain finance was a $1.8-trillion global market creating a potential revenue pool of $20 billion, of which just $2 billion was currently being captured. It forecast the market would grow at 15 per cent annually to 2020.

McKinsey noted that until 2005 big banks accounted for about 95 per cent of the market, but that fintechs had grabbed a 15 per cent share and were growing rapidly.

The sector was initially focused on multinational corporates and their key suppliers, partly reflecting the reliance on large and expensive computer systems that were needed to run the process.

But a new generation of fintech companies has emerged, exploiting developments such as the cloud and software-as-a-service systems to reach a wider customer base including medium-sized buyer companies and extending into the long tail of small supplier companies.

One of those fast-growing fintechs is PrimeRevenue, set up 13 years ago and now providing a finance hub for hundreds of corporate clients, such as Michelin, Kellogg's and Sainsbury's, tens of thousands of suppliers and more than 70 banks around the world.

PrimeRevenue chief executive P.J. Bain says its network is enabling suppliers to raise $4 billion a month from selling invoices early. "That's $4 billion they can invest back into the business if they need to expand into new geographies, buy more inventory, more raw materials, open new facilities, hire more people and create new jobs. It's an efficient way for them to be able to access cash and grow their business," he says.

> "If you can help the supplier get paid more quickly, it helps cash flow more quickly through the economy and ultimately can help economic recovery

"Five years or so ago, many corporate treasurers may have known the term supply chain finance, but very few were actually using it. Today many are either dipping their toe in the water or trying to learn about it."

This year PrimeRevenue teamed up with business software group SAP Ariba to offer a service that marries their finance and transactional systems.

Drew Hofler, vice president of solutions marketing at SAP Ariba, says: "It provides complete transparency in the entire supply chain from the moment something is sourced by the buyer, to the purchase order going out, goods shipped in and invoice going out."

Faced with competition from the fintechs, some of which have brought in insurers, hedge funds and fixed income funds as providers, banks are casting their nets wider, often in collaboration with the new networks, as finance providers and, increasingly, technology partners.

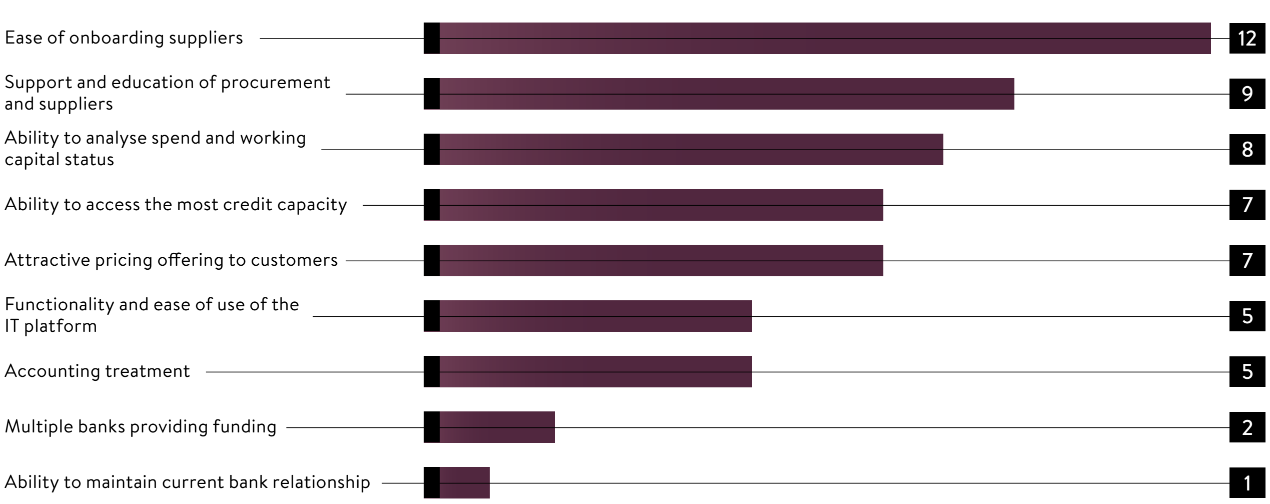
Barclays has launched a new supplier finance service to customers using the PrimeRevenue platform, allowing it to cement relationships with existing clients and reach out to new ones.

Lasma Orlovska, head of open account products at Barclays, says there are huge opportunities for the large banks to step in as finance providers on their own, to participate in deals led by other banks or to link up with fintechs and to reach new customers.

She adds: "There are big opportunities in the non-investment grade segment, working with buyers who were not necessarily on the top of the list for banks to service."

A 2016 survey of corporate treasurers by banking software provider Misys found that 28 per cent of small and medium-sized enterprises were finding access to finance harder and 9 per cent had a greater reliance on alternative finance than two years ago.

KEY SUCCESS FACTORS IN A SUPPLY CHAIN FINANCE PROGRAMME
NUMBER OF RESPONDENTS WHO RANKED THE FOLLOWING AMONG THE TOP THREE FACTORS*



*Global survey of 70 buyers and 250 suppliers

Source: McKinsey 2015

AUTOMATION UNLOCKING CASH

01 ACCOUNTS PAYABLE

Automating accounts allows the buyer to offer suppliers the option of being paid early in return for a discount, bringing an immediate benefit to cash flow. The buyer can choose to use its own surplus working capital or can conserve it by using a third-party financer to fund the transaction.

02 ACCOUNTS RECEIVABLE

The supplier can automatically opt for early payment, providing working capital for wages and other bills or for investment elsewhere in the business, such as new machinery. The discount from such supply chain finance can be cheaper than raising funds from other means, such as a bank loan.

03 INVENTORY MANAGEMENT

Even for relatively small companies, effective warehouse and stock control can be a huge challenge. Technology that was once available only to the largest organisations can now be used to track goods accurately, avoiding excess stock or stock shortages and making more efficient use of space.

04 PROCUREMENT

Electronic procurement or e-procurement saves time, avoids unnecessary spending, eliminates waste and can be used to reduce the number of suppliers to make the supply chain more efficient. It can help secure lower prices by building in discounts for bulk purchases or early payment and by holding online auctions to create competition among suppliers.

05 CASH-FLOW FORECASTING

Businesses are adept at using systems such as enterprise resource planning (ERP) to generate efficiencies in supply chain management, project management and human resources. ERP, specialist treasury systems or bank software can be used to automate cash-flow forecasting, improving financial visibility, and enabling better management of risk and liquidity.

It concluded that banks must step up automation to compete with alternative funding sources and highlighted supply chain finance as a key area where they could forge stronger ties with mid-sized corporations, reducing their risk exposure in the process.

Ben Singh-Jarrold, strategist in corporate banking at Misys, says: "Banks are no longer at the centre, so tellingly corporate treasury is now in a very powerful position."

Another fast-growing fintech is Taulia, which started in 2009 and now works with more than 100 of the world's largest companies, including Vodafone, Coca-Cola Bottling and Warner Brothers, which between them have 850,000 suppliers in 161 countries.

Matthew Stammers, European marketing director at Taulia, says technology has opened up the market so that it can now potentially reach down to the smallest suppliers and help them get paid early.

He believes the benefits go way beyond the supply chain, explaining: "It makes the world simpler, which is why it is so compelling. If you can help the supplier get paid more quickly, it helps cash flow more quickly through the economy and ultimately can help economic recovery, one invoice at a time."

COMMERCIAL FEATURE

SUPPLYING FINANCE THROUGH THE CHAIN

Supply chain finance can be a lifeline for startups and smaller businesses struggling with cash flow

PrimeRevenue

Kiddyum MADE FOR MINI TUMS

Jayne Hynes is a classic example of an entrepreneur – cooking up a business idea in her kitchen and turning it into a brand that is now stocked on the shelves of a national supermarket.

Her company Kiddyum makes children's frozen ready meals that are sold through Sainsbury's across the UK, and the fast-growing business is planning to supply other retailers and move into new domestic and export markets.

She insists she could not have grown the business so quickly without the benefits of supply chain finance, which she describes as "an absolute lifeline", allowing her to get almost instant access to payments for products at a small discount.

Kiddyum taps into a system provided by Sainsbury's, using the technology and platform developed by PrimeRevenue, with finance by Royal Bank of Scotland, allowing her to maintain the cash flow needed to keep her business running efficiently.

Mrs Hynes, 40, was juggling her full-time job as a chartered surveyor with being a mother to two young children when she started experimenting with cooking and freezing batches of healthy meals.

She spotted a gap in the market and spent two years researching it, before winning a contest to pitch her idea to Sainsbury's who liked it so much they placed a contract in October 2013.

Outside investment, plus the support of her husband who continued in his full-time job, helped fund Kiddyum's startup so she could commit to a launch in August last year, when five products, including fish and vegetable pie, and chicken curry with rice, went on sale in 330 Sainsbury's stores.

Her concern was that retailers had a bad press for holding suppliers to payment terms of 60 or even 90 days, which would have left her with cash-flow problems. Among her costs are outsourcing of cooking, warehousing and distribution, plus business services such as accountancy and marketing.

> I've potentially saved tens of thousands of pounds by doing this, but I'm amazed at the number of people that don't know this kind of facility exists

To her relief, Sainsbury's put her on the PrimeRevenue platform, allowing her to draw down on payments as soon as invoices are approved on the system, subject to there being a minimum of £5,000 in the account.

"Once we were set up it was amazing, we were able to get the money in the account the next day. For me as a small business it is absolutely invaluable," she says.

"We produce on a big scale and we produce monthly, which is a chunky outlay for us. If we had to wait 60 days we would need to have more cash sat in the bank because there is a lot of investment in stock."

A fee is automatically deducted when she draws down on a payment, which is much cheaper than using a bank loan or private funding house, says Mrs Hynes.

Another advantage is the system does not require any additional hardware and is accessed through a website, providing information her accountant can also tap into.

"It's fairly easy to use and very transparent. We have a PrimeRevenue account manager who is always available and I find them very easy to deal with, very responsive," she says.

Mrs Hynes will need external backing to help fund the next stage of expansion, but she would be keen to use similar supply chain finance systems if other buyers made them available, noting: "I think this is the most ethical way of treating suppliers."

PJ Bain, chief executive officer of PrimeRevenue, says the network benefits buyers, suppliers and finance providers, dramatically increasing cash flow for business, down to the smallest link in the chain.

He adds: "It gives smaller companies access to capital at a lower cost that allows them to innovate, expand or pay down debt. It creates an ecosystem which drives success for all the participants."

Summing up the benefits, Mrs Hynes concludes: "For us, this kind of arrangement is an absolute lifeline. I've potentially saved tens of thousands of pounds by doing this, but I speak to a lot of other SMEs [small and medium-sized enterprises] and I'm amazed at the number of people that don't know this kind of facility exists."

For more information please visit primerevenue.com