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SMART CASH MANAGEMENT CONFERENCE REPORT

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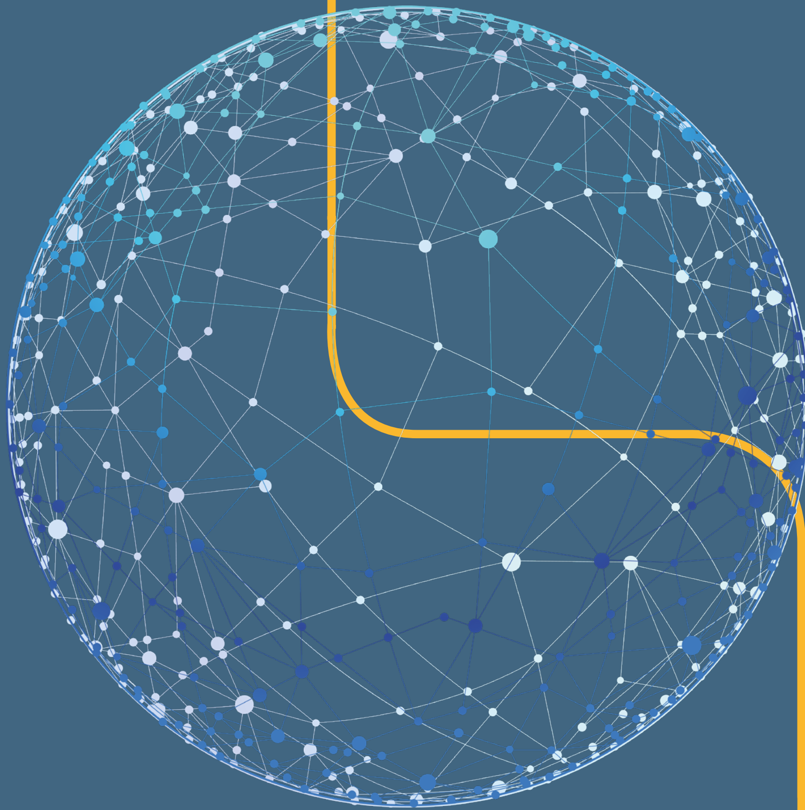

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UP FOR DEBATE

At the 2018 Smart Cash Management Conference, speakers, delegates and panellists discussed the balance between innovation, regulation and strategy

There are a number of core factors for treasurers and corporates to take into account. Whether our concern is regulation, whether it's cash management, or whether it's managing the balance sheet or cash forecasting, listening to each other and sharing best practice have proved to be a valuable experience.

We are living in an era of fast acceleration in terms of technological development and innovation, and we exist within a regulatory context that continues to evolve. Over the two days, the themes of the conference were innovation, connectivity and growth. However, another key topic that recurred over the two days was responsibility. For treasurers, that includes ensuring their organisations are as efficient in cash management terms as possible, compliant on regulatory fronts and vigilant in terms of both the benefits and risks that come with technological development. Banks need to engage across those fronts as well, ensuring we identify key issues – particularly around compliance and cybersecurity – and pass on best practice under our advisory role.

When it comes to technological evolution, we are seeing profound change. The challenges presented by the Open Banking initiative and from the fintech sector more generally are considerable. A wider set of providers is coming on stream, particularly on the payments front. I am positive that the benefits of technology – whether this is part of Open Banking, advances within payment technologies, or the continuation of new entrants into the cash management and payments ecosystem – will ensure the banking system stays competitive.

It is true that many of the developments to date will affect consumers before they become viable in the corporate space. For now, the realities in the corporate world for transactions and cash management remain challenging. But the changing expectations these new entrants bring, and continued initiatives towards genuine straight-through processing and friction-free transactions, will benefit us all in the long term.

There is clearly a shake-up ahead – but one with benefits for the world of the corporate treasurer.

David Shinkins, head of UK cash management, Barclays

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WORDS: LIZ LOXTON / CONFERENCE PHOTOS: CAROL MOIR

TALKING POINTS

Speakers and panellists covered corporate treasurers' core concerns over the course of the two-day conference. Here we look at some of their key themes

CYBER RISK AND FRAUD PREVENTION

Preventing fraud and improving defences against cyberattacks have long since moved up the agenda for corporate treasurers. The statistics are alarming. Delegates at this year's Smart Cash Management Conference heard that 76% of UK organisations have been subject to some kind of cyberattack, while only 24% have taken out an accredited form of insurance. In the UK, cybercriminals have successfully made off with over £1bn and possibly much more. Email impersonation continues to be a favoured method. Increasingly, criminals arm themselves with detailed knowledge of their target organisations, right down to personal information gathered from social media platforms.

Innovation is always a double-edged sword. As cheque imaging, and the faster clearing cycles it will bring, comes on stream, so another opportunity may emerge for the fraudster – albeit in the short term – while Open Banking raises the possibility of fraudsters registering shadow organisations as fake payment initiation service providers. Against this barrage, keeping up with the latest intelligence and security innovations becomes paramount, as does ensuring that treasury personnel are protected. The methods that hackers use are highly credible and sophisticated. Ensuring staff understand internal processes and encouraging them to challenge anything untoward remain the first line of defence.

LIQUIDITY AND RISK

Ten years on from the financial crisis and corporate treasurers and their banks continue to wrestle with a legacy of liquidity challenges, many of them brought about by bank regulation. The viability of short-term deposits has been eroded and the ongoing march of regulation – most recently around money market funds, for instance – continues to add complexity. However, with interest rates gradually ticking upwards and an improvement in market sentiment, the balance between security and the search for yield may at last be starting to shift.

Participating in group discussions on liquidity, delegates reported that some risk areas are still significant concerns. Counterparty credit risk is a case in point, along with concentration risk. Making careful choices about banking providers and allocation of business is still a priority. One upside to the financial crisis, however, has been the increased influence of treasury around the business. Difficult times have made the job of persuading subsidiaries or business divisions to flow funds back to the centre a little easier, one delegate reported. However, the search for clear and accurate financial information from the wider business can still be a challenge, according to another.

REGULATION AND FINTECH

The swathes of banking and financial regulation that emerged after the financial crisis have played a significant role in bringing the fintech sector into being. Notwithstanding a phenomenal pace of change within the technology sector itself, without that regulation – and the challenges it has brought for financial institutions and non-financial corporates alike – fintechs would likely not have taken hold the way they have.

As fintech matures, we are seeing a polarisation within the banking market between organisations that can leverage new technology to innovate and grow, and those who find such changes difficult to achieve. And while many of the more visible success stories have occurred in the consumer space, it is only a matter of time before fintech players have sufficient credibility and financial firepower to start addressing the needs of the corporate treasurer more widely than the FX solutions we have seen so far.

BANK RELATIONSHIPS

A panel discussion on the relationship between corporates and their banks sketched out wider imperatives than

the need for banks to offer merely the right products at the right price. Bankers who show willing and go the extra mile on relationship-building and problem-solving will always be the ones who draw plaudits. Detailed knowledge of a customer, including its industry, its drivers and its objectives; impeccable customer service, including a desire to work to resolve a corporate treasurer's issues; plus a willingness to network with treasury staff at all levels were just three of the areas highlighted.

Corporate treasurers also want relationships with bankers who will work with them in the bad times, as well as when things are going well. The real test, one panellist said, of how solid a bank-corporate relationship was is how a bank responds when things are not going to plan.

Both banks and corporate treasurers are aware of the need to play the long game. One member of the panel praised those banking contacts willing to maintain relationships even in the absence of formal arrangements. Having those banks in reserve can be helpful if other banks withdraw from particular territories or lines of business.

BREXIT LOOMING

Keynote speaker Amit Kara, head of UK macroeconomic forecasting at the National Institute of Economic and Social Research, gave an assessment of the UK's prospects as Brexit draws closer. The majority of forecasters have noted a gradual uptick in the global economy, with many upgrading previous assessments on the back of continued momentum. However, the UK faces uncertainty on a number of fronts. Productivity performance remains puzzlingly sluggish and there are signs of potential wage inflation in the UK. The prospect of wages rising above productivity growth remains a core risk.

The UK's trade sector is expected to make a positive contribution to economic growth this year and next, Kara said, as it continues to take advantage of a weaker-than-usual currency. The outcome of Brexit negotiations would be key, he said. A bespoke arrangement with the EU was possible, but would require a trade-off in terms of access to the EU market, the loss of the UK's net financial contribution and the freedom of labour movement. The Norwegian, Swiss and Canadian trading relationships with the EU have all been thoroughly debated. The Norwegian and Swiss models retain a significant freedom of labour movement element, while the Canadian model involves a much more restricted access to the EU market. An alternative outcome remains in the hands of the politicians.

SPEAKERS AND PANELLISTS

- Charles Barlow, former group treasurer, Coats
- Laura Bedborough, business development manager, Apply Financial
- Stephen Calver, senior treasury manager, UBM
- Frances Cavanagh, treasury controller, Willis Towers Watson
- Nicolas Christiaen, CEO and co-founder, Cashforce
- Tony Craddock, director general, Emerging Payments Association
- Bandhu Das, head of cash management, HM Treasury
- Julie Fabris, group treasurer, Britax
- Yera Hagopian, managing director, liquidity, Barclays
- Amit Kara, head of UK macroeconomic forecasting, National Institute of Economic and Social Research
- Aisling Kavanagh, director, Deloitte
- Sat Khuntia, head of FX sales, corporate banking, Barclays
- Jane Lowe, secretary general, IMMFA
- Pedro Madeira, group treasurer, Ardonagh
- Richard Martin, MD transactions product management, Barclays
- Peter Matza, speakers' chair, ACT
- Sue Moore, director tax and treasury, Cambridge University Press
- Eugene Nxumalo, treasury controller, Liberty Global
- Maria Parpou, head of product, global commercial payments, Barclaycard
- Joe Peka, deputy treasurer, URENCO
- Catherine Porter, EMEA treasury director, CBRE
- Keith Reed, treasury manager, Honda Motor Europe
- Bente Salt, head of treasury, Rentokil Initial
- Carl Sharman, director, Deloitte
- David Shinkins, head of UK cash management, Barclays
- Myles Stephenson, chief executive, Modulr Finance
- Elina Todorova, assistant treasurer, Tideway London
- Mike Walters, chief product officer, Form3
- William Wrest, director, strategy and business development, B2 Group

A CLEARER VIEW

Working capital management is dependent on visibility; visibility is dependent on technology and inputs from multiple stakeholders. Here, we take a look at some of the issues facing treasurers

Effective management of working capital is a task beset with complexities. At its foundation lies real-time visibility of cash – a goal that itself is highly dependent on the delivery of consistent, high-quality data and good connectivity. As many corporate treasurers will report, however, accessing data from across the many territories in which their organisations operate is just the first hurdle. Factor in multiple banks and varying approaches to technology across both their own networks and those of their providers, and the holy grail of real-time visibility may look out of reach – as delegates heard in a session on working capital management.

Anecdotal evidence suggests treasurers are less than happy with the degree of visibility over bank statement data. So how achievable is that real-time cash visibility, given the complexities? As William Wrest, director, strategy and business development at integration specialist B2 Group, put it: "You may have an ERP, TMS and/or multiple ERPs; you will be multi-bank, you'll have increasingly complex needs, varying liquidity in different territories and lots of bank accounts. It is not uncommon for us to come across corporates that are multi-country with hundreds of bank accounts."

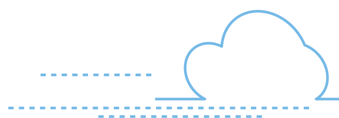
A real-time cash balance, he went on, requires balance information from the bank as a starting point, along with information on what is anticipated internally for the rest of the day. That will be further reconciled with expected payables and receivables. One issue for the corporate treasurer might be an unanticipated significant call on funds. "How quickly can I make a decision if something happens that I don't expect?" he hypothesised.

Treasury and corporate technology that allows the treasurer to respond to the unexpected is certainly desirable. But corporate treasurers also need systems that can flag missing or incomplete bank statement data. "I would want visibility of cash and timely receipt of statements. If I don't receive my statements, I would want to be told, so that I know my balance is out of kilter. So whatever solution I have would need to be capable of flagging that problem."

File formats that are not consistent with each other and multiple technology frameworks make for further obstacles.

"Connecting to your bank via your ERP or TMS, or host to host: these are big projects, often locking you into specific file formats," said Wrest. In the digital age, however, treasurers will increasingly want to be agnostic on file formats. If a bank or another provider were to experience operational problems, treasurers would want to be able to re-route cash and data seamlessly, he argued.

Possibilities for treasurers include reviewing their own systems and frameworks internally, and potentially proposing new solutions or additional technology. This will immediately bring up questions around budget and resources. An audience poll found budget to be the biggest barrier to implementing new treasury technology for 46% of respondents. Another 28% cited technical expertise and a further 20% put buy-in from stakeholders as their most significant concern.



BEST PRACTICE

With such multiplicity in technology frameworks, needs and approaches, best practice around working capital management is difficult to define. A working capital management review that broadened responsibility for this area within the organisation; deeper engagement with banks and other providers on this issue; and an investigation of fintech solutions were others, Wrest argued.

Bandhu Das, head of cash management at HM Treasury (see box), whose department has responsibility for £800bn in public spending and annual flows close to £2 trillion, said visibility on short-term cash was the foundation. "In order for us to do a really good job on working capital, we need access to data real-time with clear visibility," he said.

MULTIDISCIPLINARY

The issue for the treasurer is understanding how sound forecast data is when it comes from across the business. One fundamental within this question is that working capital management is a truly cross-functional area. Working capital management is highly dependent on input from other parts of the business, cutting across functions such as production, sales and shared service centres. The challenge with the management of working capital, one member of the audience pointed out, is that responsibility for this area may not ultimately belong in treasury. "I think that is a widely held view," said Wrest.

Addressing how aware the wider business is about the need for accurate and timely inputs and – more fundamentally – responsibility for those inputs and the contribution that working capital management makes to business performance is largely a cultural issue and a top-level responsibility. And yet, incentivising different parts of the business to supply accurate and timely data and assigning responsibility for checking data accuracy is a part of the working capital management debate that currently appears to be missing from discussion.

It is an area likely to move up the corporate agenda, however. Efficient working capital management becomes even more important for organisations under cost pressures. As interest rates rise, debt becomes more expensive, and working capital begins to look like a competitive source of funding, so treasury teams may find themselves at the beginning of discussions and projects on how to manage it more effectively.

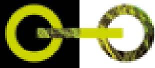
Treasury in government

At HM Treasury, Bandhu Das (pictured left) is responsible for advising on all aspects of cash management issues, from complex space programmes and defence contracts to the day-to-day running of around £800bn in public expenditure, in the UK and overseas. He leads the government's critical cash flow forecasting enterprise – around £2 trillion in annual flow – with the aim of accurately predicting and reconciling the government's intraday and daily net cash position on a rolling basis.

With numbers like these, the cash management and forecasting issues are of a scale few corporate treasurers will need to address, and they come with a level of public scrutiny few will have encountered. HM Treasury needs as complete a picture on cash as possible throughout each day. "We need to know hour to hour where we are. We have to maintain visibility at all times," Das told delegates.

The level of transparency required is just as exacting. HM Treasury produces intraday balances several times daily and needs to be precise with the end day balance. "We cannot go to the market suddenly, we need to be precise and timely, we must ensure we minimise disruption at the money market and at the same time maximise value for the taxpayers from our active cash management operations," he said.

Given the level of scrutiny from parliamentary committees and the media, investing in new technology is complex, Das said. "For any organisation it can be really challenging to spend money on new technology and then implement it skilfully." That said, he is optimistic about the trajectory of technological development to the benefit of the wider world of treasury. "Computers are getting smarter and that will lead to clearer visibility, faster reconciliation and accurate, real-time forecasts. The question is: what do we do next? How do we compete with 'automation' and continue to add value to our organisations?"



GUARDLINES

With fraud and cyber breaches hitting businesses more frequently and with greater impact, how can treasurers police their cash?

In the cybersecurity space, cautionary tales and sobering statistics are fast becoming the norm. One of the most significant trends for corporate treasurers in the past few years is a growing realisation that cyberattacks are a real and prevalent risk. It's no longer a case of 'if', and more a question of 'when' and 'how'.

The mounting tally of data thefts and fraud attempts testifies to that. According to the specialist fraud team at Barclays, 76% of all UK organisations have been successfully breached. And, while not all of those attacks will have resulted in financial loss, the figure is more than high enough to result in sleepless nights for treasurers.

In a session on cyber risks – Preventing Fraud, Protecting Cash – Richard Martin, MD transactions product management at Barclays, reported that only 24% of organisations have accredited cyber protection in place. One clear net result: in the UK over the past year, more than £1bn has been identified as being lost to cybercrime.

MAIN FRAUD TYPES

Keeping abreast of fraudsters' methods and routes into the financial systems of corporates is clearly paramount. The malware and Trojan attacks that were prevalent a few years ago have declined slightly, while the business email compromise (BEC) and invoice scams that are replacing them have been on a steep upward trend.

BEC frauds – emails sent by criminals, but purporting to be from a CEO or CFO – remain a significant feature of the cybercriminal's armoury. These emails demand the instant and often confidential transfer of a large sum. Their sophistication should not be underestimated; they are well written and well researched, often referring to real people and events. Their plausibility means that they have proved particularly effective when it comes to taking advantage of more junior staff members.

BEC is not the only form of impersonation that takes place, however. Cybercriminals have increasingly been known to impersonate individuals from banks or suppliers. Armed with a fund of personal information about their target business, right down to individual members of staff, fraudsters will sometimes make a succession of calls and have the technological capability to intercept callbacks – particularly those made straightaway. Some 600,000 Facebook accounts are compromised each day, Martin reported – a data haul that enables the cybercriminal to arm themselves with significant levels of personal detail with which to make their email and phone approaches all the more credible.

More traditional methods of fraud are being augmented by technology. Cases in point are cheque frauds and cheque overpayment frauds. Both are worth keeping front of mind when cheque-imaging technology comes on stream later in 2018. Cheque imaging is likely to represent yet another opportunity for fraudsters. "We could see an initial increase in cheque-related fraud, before the expected decrease, as the very much quicker cheque-clearing cycles help to manage this particular risk," said Martin.

Open Banking is another example of innovation that will present cybercriminals with an opportunity. Banks will need to watch out for fraudulent organisations registering themselves as payment initiation service providers and directing funds away from customers via mechanisms such as direct to bank payment requests.

SO WHAT ARE THE CORE PRINCIPLES IN THE FIGHT AGAINST CYBERCRIME?

1 Training and awareness

Raising staff awareness through training and knowledge sharing is a primary means of managing the mounting fraud risk, Frances Cavanagh, treasury controller at Willis Towers Watson, explained. Given its own risk management role, Willis benefits from significant in-house expertise. A risk management forum meets quarterly and feeds intelligence back through the business. The treasury

function also uses its banks as a resource. "From a treasury point of view, we utilise our banking partners. Our main cash management bank updates us each quarter, which is very helpful," she said. One provider recently embedded a short cyber-awareness video into its login routine, giving staff accessing the banking platform a reminder on key security messages.

There are still more direct ways of driving the 'safety first' message home. Julie Fabris, group treasurer at car seat company Britax, said the Britax IT department spoofed employees by sending out emails inviting people to click on a link. Those that did were directed towards a cybersecurity training module.

2 Look for outside expertise

Corporates and their banking partners have amassed considerable expertise already, but there are other valuable resources, not least the Metropolitan Police, whose Operation Falcon unit actively forges relationships with commercial organisations as a means of passing on intelligence on the latest threats and methods.

3 Shore up your defences

Cybersecurity innovations – like the crimes they are designed to head off – are evolving all the time and banks are introducing a multilayered approach to security.

Monitoring patterns in the keyboard use of individuals who interact with financial systems and combing transaction data for abnormal patterns, where payments have already been initiated, are just two of the methods banks use to keep watch for fraudulent activity at arm's length. "Where we can, we're going to attempt to pick up suspicious patterns, and strange or new behaviours. We have fraud payments profiling supporting our strategic cash management channel, Barclays.Net, across all Faster Payments, CHAPS and SWIFT payments. It remains important that we try to identify those," says Martin.

Entry points to electronic channels are also evolving. Many organisations are moving away from smart card and pin-based approaches towards biometric tools and readers, with fingertip vein-reading technology one of the latest methods. Where more traditional tokens and devices are still in place, banks make use of pop-up messages on their portals to remind individuals to continue to make checks throughout a transaction.

4 Controls

One of the most common ways of diverting funds away from a legitimate supplier or customer is via a request to change account details. Any such requests should be treated with caution and only carried through using agreed methods. "Make sure that on any occasion when you have a request to change account details, there is a whole structure of permissions and authorisations – a means of verifying that request," says Fabris. "Don't let finance teams talk to finance teams. Go back to your supplier and your purchasing team to verify the request is genuine."

5 Culture and responsibility

The finance and treasury functions are a natural focus for discussion around cyberattacks, but the culture of the whole organisation is key. A straightforward rule that says the CEO will never send an email to shortcut a transactional process is an effective way to protect the business and its employees. Ensuring all employees – both in and outside of treasury – understand the controls process and their role in it helps make clear that responsibility lies at everyone's door.

PARTICIPANTS

- Frances Cavanagh, treasury controller, Willis Towers Watson
- Julie Fabris, group treasurer, Britax
- Richard Martin, MD transactions product management, Barclays

BARCLAYS

INVISIBLE EFFECTS

Technology is making efficiency gains and cost savings across the FX payments space a realisable goal

Cross-border transactions represent a significant market within the payment space and is one that continues to grow. According to EY analysis and research conducted by Glenbrook Partners, cross-border flows reached an estimated $22 trillion in volume in 2015 – equivalent to around a third of the global economy – and that flow is expected to reach $28 trillion by 2020, a 4.6% increase. Within that market, EY analysis, the World Trade Organization and the World Bank also found that 94% of payments are business-to-business (B2B) transactions: corporates large and small paying suppliers or receiving payments from customers. A significant proportion of cross-border flows involve some form of FX and tend to be cross-currency payments.

Given those volumes and the potential for growth, efficiency in the payments ecosystem is of critical importance. It is clear, however, that scope for improvement exists both in terms of pricing and in the transaction experience for corporate treasurers.

An informal poll of the Smart Cash Management Conference audience found a majority using their bank portal (40%) or a multi-provider platform (20%) to manage most of their cross-currency payments and receipts. Over half (52%) were satisfied or very satisfied with their current arrangements. However, 63% said providers could do more to improve visibility on the rates and margins applied to transactions.

In his presentation on leveraging innovation in cross-currency payments, Sat Khuntia, head of FX sales, corporate banking, Barclays, set out his view on how treasurers could reach greater price transparency and streamline their FX transactions.

ADVANCES

Technology, he said, has already proved to be a great leveller in the cross-currency payment space. "Ten to 15 years ago, it was reasonably easy for a large corporate to make cross-currency payments. If you were an SME you wouldn't have access to those kinds of banking or financial tools. Technology has evened out that experience to a very large extent," he said. Today, SMEs constitute 25% of cross-border flows and are a key driver of growth.

Technological advances and banking channel innovations of the past decade include: the emergence of cross-currency payment capabilities embedded into banking channels; live FX price streaming; and the ability to bulk book FX rates. "The next frontier will be access to simple hedging solutions such as FX forwards and swaps in the banking channel," said Khuntia. These changes are likely to drive growth even further, as businesses of all sizes take advantage of them.

VISIBILITY

Growing access to live FX price streaming has particular relevance to the corporate treasurer's concerns around the need for greater transparency. Increasingly, financial institutions are including live streaming of rates within their channels. "Our channel, for instance, shows the live

mid-price for the currency pair and the margin being applied," said Khuntia.

The ability to bulk book FX rates will also bring efficiency gains, while simple FX hedging productions, such as forwards, will reduce FX risk for treasurers who regularly pay suppliers in foreign currency, he argued.

While many corporates dealing big-ticket transactions have been able to take advantage of increased cost efficiencies already, the high-volume, low-value transactions space is ripe for efficiency improvements and cost savings. "Based on a number of interactions with corporate treasuries in Europe, America and Asia, I have found large-ticket transactions handled in a very professional way within them. Generally, we'll see someone dealing high-value FX, typically more than $100,000 via multi-dealer channels such as FXall or 360T, or dealing via a relationship bank on very tight spreads. I visit a lot of corporate treasuries and I'm not surprised by the tight FX spreads they achieve, compared to 10 to 15 years ago when such tight spreads were only available in the interbank market," he said.

However, almost all corporate treasuries will have a threshold below which FX transactions become uneconomical. This is an area Khuntia referred to as "invisible FX": low-value, high-volume transactions that often go unquantified and are not monitored actively in terms of the margins paid and rates achieved. "An FX dealer carrying out small FX transactions to subsidiaries is a labour-intensive scenario so is not cost-effective. Therefore what tends to happen is that these low-value FX transactions are handled by centralised accounts payable [AP] and accounts receivable [AR] teams typically in a distant shared service centre," he said. "These low-value FX are therefore not always visible to the corporate treasury. So, actually, this area offers a very good opportunity to make some efficiency gains through careful review of pricing and FX rates being achieved."

Many corporate treasurers will have experienced wide margins on FX transactions. The stories have been well-publicised and are all too familiar to the corporate treasury community. It is a situation that increasing globalisation will tend to amplify. In a decentralised model, local subsidiaries on their own will find it extremely difficult to achieve tight FX margins solely on the back of their own volumes. "You might be surprised by the wide margins some local banks may be charging your subsidiaries in different parts of the world." Khuntia cited the example of a multinational company that netted around $1m annual savings in FX costs by consolidating and centralising these transactions with a single relationship bank.

The first step, he said, is to identify the volumes and values of these low-value payment and receipts transactions, and understand what margins are being paid. The next step is for corporate treasurers to talk to relationship banking partners about their requirements and to understand the FX solutions available and pricing offered. The final step is to centralise FX transactions with a small number of relationship banks to benefit from the economies of scale. "I think the way to handle this issue is to have an upfront discussion with your relationship banks, giving an annual volume estimate, which will enable you to arrive at a tighter spread," Khuntia suggested. "Once you do so, you'll gain all the benefits attached to the high-value transactions."

There can be little doubt that the desire for greater visibility on pricing and margins comes from a dissatisfaction with past arrangements, with bulk micropayments buried in subsidiaries or AP/AR channels, and low levels of engagement between corporates and relationship banks. "This is an area where I would encourage corporate treasurers to have discussions with their banks. Make sure you have that communication," he said.

The micropayments space and e-commerce

While B2B flows dominate the cross-border cross-currency transaction space, other smaller components are growing rapidly and becoming more prominent. They comprise:

- C2B – consumers paying businesses;
- B2C – businesses paying consumers (a subsector dominated by payroll); and
- P2P – individuals paying each other.

C2B cross-currency payments are witnessing rapid growth due to the rise of global internet and platform companies.

C2B cross-border e-commerce flows for 2015 stood at $340bn, according to a white paper from the Boston Consulting Group and SWIFT. By 2020, this payment area is expected to more than double in volume, to around $756bn.

E-commerce and marketplace platforms such as Uber, Amazon and Alibaba are doing a great job integrating payments into the customer journey and this reduction in friction is leading to rapid growth of C2B cross-currency payments. Their rapid global expansion is vastly transforming the micro cross-currency payment space.

Microtransactions, in the $0-500 range, have shown a strong upward trend. However, with multiple card acquirers and merchant acquirers in place, for corporates with global e-commerce channels, aggregating transactions to realise economies of scale in FX is often challenging.

The margins currently being paid for FX in the consumer e-commerce space are often quite wide, said Khuntia – potentially between 2% and 5%. "So, again, there is a lot of innovation that could happen in this space," he added.

Clockwise from top left: Mike Walters, Peter Matza, David Shinkins and Tony Craddock

REGULATORY *PUSH*

A panel discussion on fintech and regulation explored whether the interests of financial entrepreneurs and corporate treasurers are about to coincide

Whatever its level of burden and regardless of the unintended consequences, the waves of regulation that followed in the wake of the financial crisis are, to a large extent, the impetus behind much of today's burgeoning financial technology sector.

Technological innovation is proceeding at a phenomenal pace in its own right. The pairing up of cloud technology with platforms that harness the participation of consumers in crowdfunding for start-ups or traditional

players such as pension funds in asset-based finance for SMEs are just two examples within a thriving gig economy that is rewriting the rule book on finance. Payment technology, cash visibility solutions and FX trading platforms add to the mix.

Regulation – and the challenges it has brought for financial institutions and non-financial corporates alike – has created a market of large organisations hungry for ready solutions that will assist with the gargantuan task of compliance.

Speaking in a panel discussion on the impact of regulation, Tony Craddock, director general of the Emerging Payments Association, said the impetus that regulation had given was significant. "Without the financial crisis and the need to change the level of protection and address capital needs, I don't think we would have opened the door to the flood of innovation that we have seen," he said.

EARLY ADOPTERS AND PARTNERS

As fintech solutions gain ground, so the financial services industry is dividing into two camps. On the one hand, there are those in a position to embrace fintech. On the other, there are players weighed down by legacy systems. "There is a polarisation in the banking market between organisations that can leverage this type of technology, grow fast and innovate, and organisations that have legacy estates, which is super-difficult to change," said Mike Walters, chief product officer at Form3, a start-up that provides payment, clearing and settlement services to financial institutions. And while those infrastructures are famously complex to tamper with, those players are finding other ways to engage with fintech. "You clearly have this rapid explosion of capability, with solutions for corporates, for consumers, for banks and financial institutions. With all of that taking place, I think it causes organisations with legacy estates to think about partnerships and forces them to change."

In the UK, the government is supportive of fintech, Craddock pointed out. Chancellor Philip Hammond announced a consultation on how digital payments fit into the economy in his Spring Statement, and on their potential role in a crackdown on money laundering and tax evasion.

Consumers meanwhile, while not engaged with the concept of Open Banking, continue to reveal the premium they place on customer service. In an EPA survey of 2,000 individuals, 53% said they felt let down by current providers. Some 75%, especially younger respondents, said they would be prepared to trust newer service providers. "Customers are changing; their expectations are changing. They will move to providers such as Starling and Metro if the current banking and infrastructure and ecosystem don't change," he said.

DIRECTION OF TRAVEL

The number and variety of regulatory frameworks that corporates and treasurers grapple with is a complicating factor. If there is a common thread, however, it is towards competitiveness and accessibility. "There are some pretty clear intentions now from regulators about competitiveness, openness, access and accountability," said Walters. Platforms need to be secure, open and accessible – a difficult feat to achieve. "We might not get all of that right all of the time, but I think regulators recognise that regulated platforms aren't cost-effective, and that's generating an environment for competition," he added.

With FX platforms, payment tech providers have made some headway into the corporate sector – a viable funding source for corporate treasurers coming from the fintech sector has yet to emerge. However, the traction already gained is evidence that the Rubicon is soon to be crossed, Walters argued.

"It's quite tempting to think about competition between banks, around actions such as moving accounts, for instance, but that is not what the fintech community is built on. It's built on consumers, who are ultimately corporate customers, and the immediacy of that consumer's choice for a given transaction. If you look at how this evolves over time, the easiest things to solve are simple one-off consumer transactions. The market entry profile of competitive fintech businesses is already moving from consumer through small and medium-sized enterprises, and from transactions through to funding, from short term to long term. That's the trajectory."

Low-cost, real-time, convenient and flexible cash management solutions from fintech providers are on the horizon, Craddock argued. And, while not widely adopted yet by corporate treasurers, the ease-of-use and economic arguments for adoption are gaining ground.

If the nature of finance is to match people who have excess cash with organisations that need it, argued Walters, then the existence of crowdsourcing, albeit on a smaller funding scale, validates the argument that fintech will continue to grow into the larger funding market. Operators such as Funding Circle may start by making headway in the consumer space. However, their mechanics are familiar.

"They still operate on the basis of portfolios and they still operate on the basis of what you could call traditional bank-type credit scores," said Walters. "One of the roles that traditional players play is to collect that latent demand and provide easy access to funds. My observation would be that technology is already in play that will do that. It doesn't remove the need for banks to manage liquidity or to be the manufacturers of reserve cash, but the mechanism of capture is now not the exclusive preserve of banks."

The fintech sector itself is at an interesting stage in its development. There are 950 payment institutions in the UK, 145 e-money institutions and several thousand payment service providers, Craddock pointed out. "You end up with a multitude of models, certainly, and a whole heap of these will fail, but the ones that come through will provide a completely new environment."

PARTICIPANTS

- Tony Craddock, director general, Emerging Payments Association
- Peter Matza, speakers' chair, ACT
- David Shinkins, head of UK cash management, Barclays
- Mike Walters, chief product officer, Form3

SAFETY FIRST

Successive waves of regulation have brought stability to the banking and financial sector, but at a cost

Liquidity management consistently comes up as a core challenge for corporate treasurers, and the environment in which they must deliver on this priority continues to be a testing one. Ten years after the financial crisis, regulatory changes aimed at ensuring financial sector stability have altered the appetite on the part of banks for short-term deposits, eroding options for corporate treasurers. The low interest rate environment, while beginning to ease, has also exerted pressure on returns.

With the memory of the instability that marked the financial crisis still real for many, it is perhaps small wonder that corporates and treasurers still tend to prize security ahead of returns. Moderating a workshop on liquidity strategy, Bente Salt, head of treasury at Rentokil Initial, recounted being paid an interest rate of 9.5% on an overnight dollar deposit in the wake of the Lehman Brothers collapse. "There was obviously a reason for those really high rates in terms of risk and reward. Thinking back to some of the banks paying those rates – were they on the edge?" she pondered.

Any exploration of liquidity issues in the current business climate has to be looked at in that context. Given the instability of that period, banking and financial regulation was a key progression. The trickle-down impact on corporates is still front of mind for many, but, with market sentiment improving, the balance between the hunt for yield and the importance of security appears to be finally starting to shift.

Speaking at the liquidity strategy workshop, Yera Hagopian, managing director, liquidity, Barclays, gave an overview of the major regulatory pieces of the past 10 years. Primary among them, she pointed out, was the Basel III agreement – the means by which safety measures such as the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) were embedded within European banks.

While previously an outlook on liquidity might vary from bank to bank, Basel III brought in a much more systemic approach to capital requirements – one that was applied uniformly across the banking sector. "Both the LCR and the NSFR completely changed the way banks thought about their own liquidity and, of course, as a consequence, the value of different types of deposits," she said.

BANK DIRECTIVES

Basel III was not the only set of regulations with liquidity consequences. The introduction of the 30-day rule as part of the Client Assets Sourcebook (CASS 7) in 2014 also led to some challenges for holders of regulated client monies. "Those rules, when combined with Basel III, reduced the value of deposits with a term of under 30 days," said Hagopian. "The result was that a

lot of institutions found it really hard to place their regulated client monies. Banks faced challenges to take the funds; there certainly was not a return to be paid," she added.

After a prolonged period of consultation, the rules around regulated client monies were changed, extending the period up to which they could be deposited, to a contractual tenor of up to 95 days – a much more operable scenario. This regulatory about-turn demonstrated that, while bank and financial regulation had been far-reaching, regulators were prepared to listen to feedback. "It has not just been a one-way dialogue. Regulators are watching out for some of the consequences and, where the consequences are extreme, they are prepared to respond and to make changes," said Hagopian.

MONEY MARKET FUNDS

A part of the liquidity and investment landscape that is still evolving, thanks to the regulatory climate, is the whole area of money market funds (MMFs).

The changes add stability to the vehicle, but also make the investment landscape more complex, with a need for treasurers to engage with providers on the revised structures and reforms if they want to include MMFs in their liquidity strategies. In liquidity management, treasurers tend towards a safety first mentality, Salt commented, seeking a 100% return on their principle. The changes to MMF regulation have prompted her to investigate these products afresh and – given the volatility in the investment landscape in the immediate aftermath of the financial crisis – the tightened rules bring desirable stability. "In some respects, regulation has been good for corporates. There is more security around these options," she said. "Interestingly enough, no one seems to be doing investments of over 30 days with banks; it's all with MMFs," she added, commenting on discussions in the workshop.

SECURITY FRONT OF MIND

With security still the primary point over and above margin, discussion turned to risk management. Counterparty credit risk still looms large for treasurers, which, when combined with a negative interest rate environment for euros, brings difficulties for treasurers. "It's conceptually really alien to a treasurer to say: 'I'm going to pay you for holding on to my money and I'll still take a counterparty risk on that'," said Salt.

Of course, counterparty credit risk is only one element of the risk landscape. "Within it lies another concept, which is concentration risk," said Hagopian. "You can have sound counterparty credit risk management from a credit perspective, but if you're not sufficiently diversified, then that is in itself another form of risk. What's really suffered is any sense of achieving a yield."

RATES

The one area where we are seeing clear movement is on interest rates. At the time of writing, the US Federal Reserve had made one rate rise, and the market has priced in two more for 2018. In the UK, the picture is similar, with further rate rises for sterling a growing certainty. While a move out of negative territory for the euro looks unlikely in the near term, the rate rises mooted for the rest of 2018 will be welcome news.

So, for treasurers, how will Basel III impact on this gradually easing economic picture? Rising interest rates don't bring an immediate reversal of the status quo and core features of the past decade, however. "Basel III doesn't go away, and banks will still be looking for longer-dated contractual maturities. They will still find that more attractive than overnight monies," said Hagopian. "However, the prospect of a positive yield is definitely increasing."

What the changes to the interest rate environment do bring are more favourable conditions for corporates, particularly on the investment front. "It does mean that some of the projects

Yera Hagopian and Bente Salt discuss the market and regulatory background to current liquidity management issues

that have been put on the back burner because they didn't have the business case suddenly start to look more viable going forward," said Hagopian. Salt agreed, adding: "I think treasurers are probably starting to think about investment once more. We can generally find a better return on our cash by investing in new businesses other than with the banks."

Discussing liquidity issues, delegates flagged the main areas where they continued to experience the impact of the financial crisis and the regulatory response that had followed.

CONCENTRATION RISK

Concentration risk would continue to be a challenge, said one delegate, with treasury policies in place to ensure cash isn't concentrated within just a couple of financial institutions, for instance.

INFLUENCE

One of the effects of a low interest rate, low yield environment has been a change in terms of treasury's influence over other parts of the business, reported one delegate. "Anyone in the wider business who has experienced the pain of the financial crisis is perhaps more persuadable on treasury policy. So it is easier for us to point out to a country or subsidiary that they are holding on to money. We have a little more bargaining power."

NEGATIVE INTEREST RATES

One of the most significant differences for corporate treasurers has been grappling with and adjusting to negative interest rates. "We have had to justify charging negative interest to our regions when they invest in the group, even though they're making an investment – something that has been difficult to do when, in some cases, if they were to invest locally in euros, they would possibly gain a small return. We have still had to encourage them to invest with us, however, so that we can pay down any debt that we have," said another.

INFORMATION FLOW AND INVESTMENT

Another delegate reported challenges around receiving clear and accurate information from other parts of the business, and expanded on the implications of that for investment. Relying on other parts of the business to supply budgets and forecasts could be a sticking point. "Because people don't care about that information in the way that treasurers do, it can be very difficult to get that information as accurately as you would like," he said. Managing this issue has become an education priority. "You can't do a great deal if people give you a rough estimate only. The tools won't be effective when you can't rely on the information you're being given. That's why lots of people keep their cash on same-day notice, because they know there is always an emergency coming up and they are always fire-fighting. There is a difference between having the investment tools to put the money away – MMFs, term deposits – and having the confidence to put that money away."

CONCLUSION

The clearest impact for corporate treasurers of the past 10 years has been banks' declining appetite for holding very short-term deposits. With cash accumulating on the balance sheet, treasurers' options have been limited. Returning yield through gradually increasing interest rates, better prospects for investment via acquisition, and a continued focus on managing accuracy of information regarding cash flow from around the business will clearly be the priorities going forward.

IN AN IDEAL WORLD...

The bank-corporate relationship is a perennial topic of conversation. A panel discussion identified seven core aspects they look for in a banking relationship

In an audience poll, 45% of participants rated product capabilities as the most important element of their relationship with their bank, while 40% considered pricing competitiveness to be the most significant feature. The Smart Cash Management Conference panel discussion highlighted other facets of the relationship, however.

1 Faultless execution

The ability to be able to count on the fundamental aspects of a relationship is paramount. Banking partners need to be capable and competent across the board in the cash management space. Execution is incredibly important, said one panel member. “When things go wrong, it takes so long to unravel them, so we prefer them not to go wrong in the first place.”

2 Industry knowledge

Only 12% of participants in the audience poll rated industry knowledge as the top feature of a bank-corporate relationship. However, panel members saw things rather differently. “Industry knowledge, knowledge of your business and what drives your business – and what you are looking to do in your business – is of primary importance,” said one.

3 Responsiveness

The knowledge that when you call your bank, you will speak a) to an individual you know and b) to a person who will work on your behalf to resolve your issues and challenges makes a significant difference to the life of a treasurer. Customer service is increasingly important, particularly in the face of mounting disruption and competition from fintech providers.

4 Willingness to foster team relationships

A bank-corporate relationship that is strong at all levels throughout both organisations makes for a good foundation within cash management and across other aspects of treasury needs. Corporate treasurers need to play their part here by encouraging and setting up opportunities for both sides to meet and network.

5 When the chips are down

However strong the personal relationship between you and your bank, there are always times when decisions go against you at an institutional level. Despite the best efforts of a relationship manager, a credit committee will turn down an application. The real test of the relationship between the bank and a client is how they react when things aren’t going as well as they should within a business.

6 Playing the long game

Banks that are willing to remain on the reserve list in key territories may find their patience and relationship-building qualities rewarded. There are times when banks withdraw from particular markets or lines of business and it is on these occasions that having a reserve list is helpful for the corporate treasurer. “Sometimes, banks that have been with you for a long time pull out because you can’t meet their expectations. On those occasions, other people have been ready to step into their shoes and it’s been very useful to have those reserves.”

7 E-banking integration

With wide variation in e-banking systems, an external white-label e-banking system that the banks subscribed to would go a long way to easing treasurers’ travails and would assist those organisations working towards centralising treasury and finance functions. A single web-based system that worked with multiple banks would avoid the need for banks to invest heavily and separately in individual but entirely distinct platforms. The ability to view statements, extract payments, and set up individuals and user rights in a common space would remove considerable account management pain.

PARTICIPANTS

- Charles Barlow, former group treasurer, Coats
- Sue Moore, director tax and treasury, Cambridge University Press
- Joe Peka, deputy treasurer, URENCO
- Catherine Porter, EMEA treasury director, CBRE
- Keith Reed, treasury manager, Honda Motor Europe

WARNING LIGHTS

Forecasts for UK growth have lagged behind a growing global economy. What happens next depends to a large extent on the political landscape

Any assessment of the UK's place in the world economy must take account of the far-from-certain outcome of Brexit negotiations.

Presenting the keynote address at the Smart Cash Management Conference 2018, Amit Kara, head of UK macroeconomic forecasting at the National Institute of Economic and Social Research (NIESR), explored productivity, inflation and interest rate risks, and tested a number of economic scenarios against differing exit models.

Global outlook

Economists have seen substantial momentum in the global economy at the start of 2018 and many have made upgrades to their growth forecasts, said Kara. In November, the NIESR upgraded its growth forecast for the UK to 1.9% on the back of global growth momentum and continuing low inflation.

Productivity performance remains uncertain and risks persist, he said. However, monetary policy normalisation is expected to be gradual and limited. Overall, economists are talking in terms of a significant uptick for the global economy in the short term, with global growth expected to settle at 3.5% in the medium term.

Productivity

While that growth momentum could continue across the board, there are significant downside risks, Kara said. Investment spending in the UK has been weak since the financial crisis, and productivity has been a challenge also. Most economists would expect to see productivity improve seven to 10 years after a recession or financial crisis. "Is now the time for productivity to snap back? At some point it will happen," said Kara. "We continue to believe that."

However, if productivity gains run ahead of current NIESR models, then inflation will remain low, along with the Bank of England policy rate. "I think this is a key risk," said Kara. "Productivity was growing about 2% prior to the financial crisis. Since the financial crisis, it has averaged 0%."

Wages

The UK is seeing some early signs of wage settlements nudging higher, Kara said. There is some evidence that public sector wage increases might start to occur, with political pressure on the Chancellor of the Exchequer to lift the cap in place since 2010. Adding to upwards pressure on wages is the government scheme for the national living wage to reach 60% of the UK median income over the course of the next three to four years. For that target to be reached, the living wage would need to rise by 4% per year in the near term.

The jury is out as to whether this would be inflationary, Kara added. The introduction of the minimum wage prompted companies to manage businesses differently and raise productivity. However, the possibility that wages could rise above productivity growth is a key risk for the global economy as a whole.

Risk factors

While productivity could represent up or downside risk, there are other key watch points for the global economy. Valuations in some asset classes look stretched and household debt remains high. "You could get a multiplier effect, with household debt high and an asset price correction, where the effect is greater than the sum of the two," Kara explained. "The other risk you have is central banks raising the policy rate. There have been instances in the past where the rate-rising process has been too aggressive."

A pre-Brexit sweet spot

While the UK economy has not fully benefited from the upswing in global growth, according to many commentators its international trade has made gains. The trade sector is expected to make a positive contribution to economic growth in 2018 and continuing into next year. "We are in a sweet spot in a way. Global growth is strong, we have a currency 15% weaker than it was in 2015 and we haven't yet faced the consequences of Brexit," said Kara.

The NIESR's view is that a bespoke arrangement is possible but will require concessions. "A trade-off will be required and that trade-off will essentially cover access to the EU market, the net financial contribution and freedom of labour movement."

Kara demonstrated lower levels of contribution to the EU from Norway and Switzerland compared to the UK. Both retain significant freedom of labour movement, however.

"With the Canadian model, which people are talking about currently, market access is significantly less, and freedom of labour movement is less as well. Our sense is that a bespoke deal is possible, but it will ultimately be a political decision. There is no magic formula," he said.

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Skyscanner offices, Edinburgh.
Shane Corstorphine (CFO, Skyscanner) and Paul McAuslan (Relationship Director, Barclays).

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