Unlocking the potential

A YEAR AGO DEUTSCHE BANK DECIDED TO POOL ITS SEPARATE TRADE AND CASH SOLUTIONS TEAMS INTO A SINGLE UNIT. **ANDREW REID** EXPLAINS THE BENEFITS OF INTEGRATION.

Our world changed dramatically, probably irreversibly, four years ago. The great liquidity crisis of 2008 is regarded as a watershed; essentially it dropped a huge stone into the placid waters of corporate financing. The ripples are still spreading. Through necessity, corporate treasurers have stepped up their focus on working capital and on their banking service providers.

Treasurers are asking how others have responded to both the challenges and opportunities of this new environment – and how they can also adopt the potential best-in-class practices that have been devised. That trend has driven fresh thinking and we have quickly recognised that more integrated product packages are more appropriate to the changing market environment.

There are a number of further drivers for change, such as the plethora of new regulation that has already begun to transform the financial landscape and the accelerated pace of technological advances. In response the bank has combined the respective skills of our cash and trade solutions teams to provide a better focus on integrated solutions for treasurers.

This means bringing together the management of operational bank accounts and bank account models, payment and receivables services for low-value, high-value and cross-border payment channels, liquidity management-related services to enhance working capital, and system integration solutions for enterprise resource planning (ERP) and treasury management system (TMS) data interactions, through channels such as the bank's proprietary software as well as the non-proprietary channels such as SWIFT (Society for Worldwide Interbank Financial Telecommunication).

TRADE FINANCE In traditional trade finance corporates look for advice on the traditional documentary trade products, including import and export letters of credit, standby letters, trade guarantees and documentary trade collections. But treasurers increasingly want strategic advice on the use of short-term trade financing too and on opportunities to secure a stable source of financing supported by the organisation's underlying business flows. Here products such as supplier financing, accounts receivable and transaction/transaction-based financing are being more actively sought and incorporated into integrated working capital solutions.

In fact, the world of working capital has expanded significantly over recent years and solutions such as payables confirmation have had application across industries and geographies. Back in the easier pre-2008 era, supply chain finance as a product was, for many people, purely conceptual as credit was more freely available. While the liquidity crisis and the resulting financial stress that afflicted many banks impacted on larger corporates, it was small and mid-sized companies (SMEs) that bore the brunt. This sudden lending drought exposed the respective strengths and weaknesses of key suppliers and distributors in today's extended supply chains that run across industries and sectors.

Since then there has been much closer analysis of the potential of supply chain finance, as the liquidity and credit crisis have been more broadly understood and the future debated. Banks have refined their product offerings, while both the tax and accounting treatment and associated implications have been analysed and addressed.

It provides an opportunity not only to look at positively impacting days payable outstanding (DPO) ratios, but also to help underpin the financial health of key counterparties and distributors in an organisation's supply chain. In many cases

SUPPLIER FINANCING, ACCOUNTS RECEIVABLE AND TRANSACTION/ TRANSACTION-BASED FINANCING ARE BEING MORE ACTIVELY SOUGHT AND INCORPORATED INTO INTEGRATED WORKING CAPITAL SOLUTIONS.

HOLDING A EUROPEAN CONVERSATION IN ISOLATION FROM THE REST OF THE WORLD IS NO LONGER RELEVANT, BECAUSE IT NO LONGER REFLECTS THE NATURE OF GLOBAL TRANSACTIONS AND GROWTH OR DIVERSIFICATION AGENDAS.

corporate treasurers had to consider for the very first time the option of providing support to these counterparties – either directly or through partners such as their banks – in order to ensure the long-term viability of the relationship. Overall, there is a far greater awareness and acknowledgement of the need to balance commercial profitability drivers with the parallel concerns of sustainability. In short, the commercial impact has been recognised and we have moved from the theoretical to the practical.

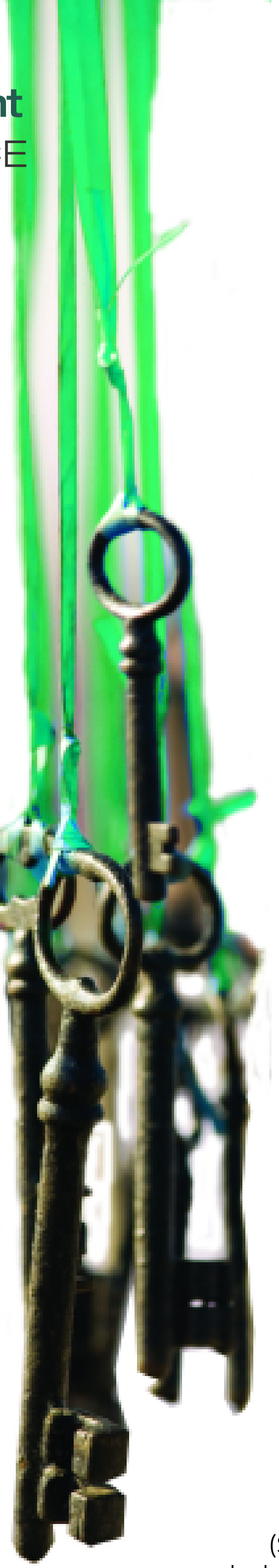
Corporate clients are looking to banks with a global presence to maintain a global dialogue with them, provide them with strong insights and alert them to new developments in fast-moving markets and to regulatory shifts. Holding a European conversation in isolation from the rest of the world is no longer relevant, because it no longer reflects the nature of global transactions and growth or diversification agendas.

Advances in technology have made this global dialogue easier to achieve. Catering for complexity, while providing consistent and standard solutions, is a critical requirement. One of the main challenges traditionally presented by supply chain programmes has been onboarding, or ensuring that the opportunities presented by new supplier financing programmes can be fully realised, particularly by the intended beneficiaries of the credit. Deutsche has addressed this by developing a dedicated onboarding team, who work with our clients' key suppliers and customers in a tightly coordinated partnership approach.

FORUM Feedback is particularly valuable to our new enhanced trade and cash team and also to our wider Global Transaction Banking management organisation. One of the many ways in which Deutsche gains feedback is via our advisory board meetings, which we hold twice a year. This forum, at which some of our key corporate treasurer clients come to report on their new challenges and priorities, is a key source of information as we learn about our clients' focus and strategic direction.

Among the messages that we are hearing is the increasing interest from the organisation's C-level in the topic of working capital. While this hasn't yet triggered any major changes in corporate organisational structure per se, treasurers are evidently being empowered and looked at as the primary drivers of greater value across the organisation, particularly in the field of converged trade and cash-related opportunities.

From this regular forum we also know that while managing risk has always been part of the treasurer's role, there has also been a steady



CORPORATE TREASURERS MUST ENSURE THEIR SYSTEMS ARE ROBUST, THEIR COUNTERPARTIES WELL ALIGNED AND THEY THEMSELVES STRONGLY NETWORKED WITH PEERS.

extension in the scope and responsibility of the task. These duties have never been expressed in quite such broad and explicit terms as they are today. As a result, enterprise risk management (ERM) has developed from just a concept into a solid programme of action within many companies, designed to meet goals that have been set for sustainability, collaboration or working capital optimisation. Just a few years ago these ambitions were being set out in Powerpoint presentations; today employees have adopted the values of ERM and employ its best practices in their daily activities.

This trend may have been accelerated by the financial crisis, but it was well under way before companies began to feel its impact, with many of the benefits already realised. Companies have streamlined, established payment factories, centralised liquidity, collaborated, and reduced the number of their bank accounts. They have also consolidated their information through ERP platform solutions and undertaken the associated standardisation based on STP (straight-through processing) formats.

A major strength of the forum is that the agenda is driven by our corporate clients and not by the bank. The forum offers a non-competitive environment for companies to share their experiences and establish which measures have proved effective in mitigating risk.

INTERNAL FACTORS Networking is widely recognised as an efficient means for treasurers and treasury departments to develop effective strategies and make their solutions more sophisticated. They are being asked to do more, yet budgets are often frozen and resources limited despite the pace of change and the regulatory challenges that lie ahead. A collaborative approach provides the opportunity to develop sophisticated strategies for any challenge. With this increasing responsibility, corporate treasurers must ensure that their systems are robust, their counterparties well aligned and they themselves strongly networked with their peers and regular counterparties.

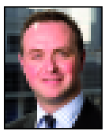
As far as is practicable, the treasury department should request a clear mandate from the organisation's senior executives on the ERM key performance indicators (KPIs) they are expected to meet and also secure the backing that is needed in order to meet them. Too often a vacuum exists within organisations, where a specific responsibility has not been allocated to any one individual or department and everyone assumes that somebody else will handle it. Corporate treasurers who spot such a vacuum and constructively move into that space can not only bolster their individual role, but also benefit the whole organisation.

Both corporates and their banks face a formidable challenge in dealing with a wealth of change. The sheer volume impacts heavily on their medium-term planning (effectively their strategic planning). The regulatory responses on both sides of the Atlantic to the events of recent years, such as MiFID (Market in Financial Instruments Directive) II, Dodd-Frank and Basel III, involve massive programmes of change and a mass of detail with implications that have yet to be fully assimilated.

Basel III in particular demands that all financial institutions improve the quality of their counterparty risk, as well as the quality, quantity and transparency of their capital. Their financial buffers must be more resilient to any potential financial crisis that lies ahead; this will ultimately increase capital and funding costs for banks and have downstream impact on corporates through possible increases in credit costs and product packaging implications. Ultimately, corporates that can manage risks and assimilate the considerable regulatory impact that is expected over the months ahead will enjoy a competitive advantage.

In the non-bank financial institutions space, insurers are discussing how they can best approach and address treasury strategy to meet the new regulations in Europe.

Additionally in Europe, with the SEPA (Single Euro Payments Area) initiative now back in the headlines following recent confirmations for end-dates for national low-value clearing systems, we can expect to see a dramatic acceleration in the number of companies regenerating their SEPA programmes and restarting centralisation projects. A number of the latter were effectively mothballed during the euro zone crisis, which acted as a brake on progress.



Andrew Reid is European head of cash and trade solutions for Deutsche Bank.
andrew.p.reid@db.com
www.db.com

Deutsche Bank