Drawing in the net around global financial risk

TO MANAGE RISK SUCCESSFULLY IN A CONSISTENT AND CO-ORDINATED WAY IT IS IMPERATIVE THAT CORPORATES HAVE THE RIGHT GLOBAL BANKING RELATIONSHIP. **PAUL McDONAGH** EXPLAINS HOW IT'S DONE.

Every day, global companies face global financial risks. Some risks must be managed at an enterprise level; others need on-the-ground, local attention and in-country expertise.

The global economy is moving out of the recession at a varying pace across different geographies and markets. Complex patterns of economic and political risk and wide variations in growth, interest rates and inflation are the norm.

For treasurers and finance directors, the related treasury risk concerns – such as liquidity and funding challenges, hedging of currency and interest rate exposures, counterparty and country risks, and supply chain management – are increasingly challenging.

If the company is a large multinational business, there is also the added complexity of multiple subsidiaries, local market conditions/practices, longer supply chains and communication channels. All these need to be managed and co-ordinated.

It is clear that risk is a topic at the forefront of our clients' minds. Planning plays a critical role in orchestrating good risk management in order to achieve solid business models. A truly global banking partner can support a cohesive approach to managing the global financial risks that every multinational corporate encounters – from a simple, practical niche solution to a more in-depth bespoke approach.

Some of these risks must be dealt with at an enterprise level, while others need on-the-ground, specialist local attention and knowledge. Some need both. Drawing in the net around global financial risk calls for a holistic, well-co-ordinated and consistent approach. This is where the quality of banking advice, together with industry thought-leadership, as well as a wide transaction and information network, can play a vital role in managing risk.

If a global advisory relationship is working well, the company will benefit from timely, strategic discussions with their global relationship banker at group treasury level. Treasury's strategy can then be consistently communicated and executed top-down across the organisation through the local treasury departments, advised and supported by their local global network banking representative and specialist product bankers.

This model is also effective at feeding in-country knowledge back to the centre from the business's local markets and grassroots, informing strategy and providing tactical opportunities.

Let's look at some practical examples of how a global banking model can work to reduce risk in a global business.

STRENGTHENING THE SUPPLY CHAIN – SUPPORTING THE NETWORK FROM THE CENTRE Global supply chains may be at risk as a result of a number of factors. Interruptions to production at one or more key specialist suppliers can halt the global supply chain of a particular company or even a sector.

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Loss of key suppliers may also occur as a result of a funding gap, if working capital is not available to cover the purchase of raw materials or to fund manufacture. This risk may be mitigated by offering suppliers a supply chain financing option, with facilities provided by the buyer's banking partner. Such financing can be particularly attractive if a global company's credit rating and commitment to purchase enables its supplier network to effectively leverage the stronger credit risk of the buyer and so command a more competitive funding rate.

A global network bank will also be able to support local on-boarding of multiple suppliers to a supply chain programme and administer the supply chain financing efficiently across a number of geographies via its global network and online reporting systems. RBS's MaxTrad is a market-leading example. In this way, a global solution can be negotiated and established to strengthen the supply chain across a company's operations and support suppliers locally.

A CENTRALISED LIQUIDITY MANAGEMENT APPROACH WILL ACHIEVE CONTROL, AND REDUCE LIQUIDITY AND EXECUTION RISK Centralising liquidity management offers similar opportunities to manage down risk. The main win from global or regional liquidity management structures is, of course, funding efficiency. Concentrating in-country cash surpluses to a regional or global treasury centre frees up idle cash and maximises interest opportunities, so reducing the overall cost of funding. Global banking provides the tools to achieve this with cross-border, automated sweeping, third-party cash concentration services and notional cross-currency pooling.

In addition to funding efficiencies (and reduction in liquidity risk), there are significant operational risk management benefits to be gained from implementing centralised liquidity management. Control of cashflows is increased and there is better visibility of subsidiary operations – for example, the proliferation of subsidiary bank accounts with local providers can be held in check.

To take full advantage of funding efficiencies, and extend control benefits, some companies will harness a centralised regional approach to cash management, by, for example, centralising their commercial payments in so-called payment factories. Here again, the global banking relationship and network is key to achieving central efficiencies while also meeting local needs and regulatory requirements.

LOCAL AND SECTOR EXPERTISE HELPS DRIVE INNOVATIVE RISK MANAGEMENT SOLUTIONS Geographic and sector specialist bankers can bring relevant ideas and niche solutions to the table to strengthen a multinational company's overall risk management strategy. For example, it may be valuable to discuss particular commodity expertise or specialist hedging ideas for emerging market currencies at a global, strategic level. An effective global banking relationship will be able to bring in such resources at the right moment and at the right level.

For instance, the automobile sector was severely affected by the recession; many companies were downgraded, driving up the price of debt and increasing risks to business. By using conduit financing in certain relevant jurisdictions to securitise a portfolio of receivables (such as retail and distributor finance), some companies in the sector structured programmes that provided them with the ability to tap investment-grade financing and unlock necessary liquidity.

HARNESSING TECHNOLOGY TO DELIVER EFFICIENCY, CONTROL AND GLOBAL COVERAGE A successful global banking relationship model delivers strategic global advice complemented by strong local skills and knowledge, in a fully co-ordinated way. The key enabler is a global technology network that supports delivery of information and execution of transactions right across the company's operations, whether for highly sophisticated, centralised structures or an innovative, niche solution.

A simple and practical example of the fusion of ideas and technology to deliver a valuable risk management tool is performance bond management using RBS's MaxTrad. MaxTrad is a global online tool which can closely monitor and control significant risk areas through automation.

Therefore, performance bonds may be issued by companies as a guarantee for large infrastructure projects; the risk is then laid off to a banking partner. A company may need to track hundreds of such bonds over protracted periods until physical recovery/maturity. Max Trad can track these performance bonds until maturity, thereby offering a reassuring seamless risk solution.

ADDING VALUE THROUGH THE COLLABORATIVE CLIENT/BANKER RELATIONSHIP Customers should expect their banks, like RBS, to understand the financial risks they face. They should also be able to draw on a bank's experience, a global network (where available) and, perhaps, on-the-ground bankers or product specialists with strong local skills and knowledge.

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