Evolution in the Nordic region

Carsten A Lauridsen of SunGard Treasury Systems outlines the different strategies treasurers have used to raise the international profile of the Nordic region.

From an international perspective, the Nordic region consists of relatively small countries, with national currencies of only minor market importance. To succeed internationally, industrial corporations and financial institutions have developed impressive competencies within risk management.

Treasurers and bankers have become specialists in a number of areas, including managing domestic exposures against strong international currencies such as dollar, sterling and deutschmark.

A typical example was in securing cashflows in turnkey projects. Revenues generated by Danish and Swedish contractors in particular have represented crucial contributions to the balance of payments. The Nordic countries were dependant on the commercial net inflow financing government deficits.

Borrowing in the international financial markets is another area where treasurers have excelled. Due to the central banks restricting commercial banks' domestic lending limits, a new business practice of borrowers funding in the international markets was created. This financing was obtained in foreign currency and based on offshore interest standards.

Rapidly, even small and middle-sized companies routinely played the international financial markets and most firms established income targets on leveraging commercial flow.

After having worked closely with Nordic, European and US organisations, I have been able to draw comparisons and, as a result, have only the greatest respect for the level of sophistication of the Nordic treasuries. Unfortunately, and to their undoubted frustration, a variety of advanced

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international financial solutions have been beyond their reach, solely due to the sheer lack of critical mass. Formal rating requirements in particular have precluded most from establishing programmes such as securitisation.

Rising to the challenge

The majority of those businesses looking for significant expansion had primarily been concentrating upon the export of domestically-produced products and services. Unless customs dictated otherwise, any resulting currency exposure was, in principle, avoided by invoicing in their own domestic currency.

When this was not possible, then the exposure was hedged through entering the derivatives – and financing markets. Solutions involving the swapping of cashflows were construed using a combination of house banks and specialised international banks.

As a result of companies becoming more dependant on international trade, most finance departments developed strong skills in handling multiple currency flows and counterparts. Aggressive optimisation of the flows frequently became an integrated policy, and in many cases, a stated core business activity. The 1991/1992 financial crises_ necessitated a review of established practices. Often board members requested such reviews when well-established public companies which had actively pursued an optimisation strategy experienced severe financial problems.

Suddenly, caution became popular, but companies with significant flows and exposure quickly adopted policies and standards of high quality. At the same time, risk management tools were implemented and activities resumed.

Setting trends

A growing number of large Nordic companies have taken steps to expand internationally by investing overseas in local manufacturing and distributing facilities, thereby also gaining significant logistical and cost advantages. From a treasury perspective this has created a greater need for optimising treasury systems configurations between bank and treasury management software, to enable the centralised management of treasury positions and risk.

Without going into the pros and cons of the Nordic countries' varied commitment to the EU and the euro, it is important to be aware of the differences between the company structures in those countries.

Spot the differences

Denmark has few large companies but a huge number of small and medium-sized industrial and trading firms with exposures in all currencies. Norway's corporate world is dominated by the state-owned petrochemical companies where the dollar dictates. Sweden, meanwhile, has a strong and broad privately-owned industrial sector and is leading in establishing risk management on an international scale, while Finland's corporate sector has quickly converted to a more commercial structure, with less reliance on forestry. It has few large firms, but has successfully invested in one global IT activity, telecommunication. Internal and external pressures on standardisation – for example, ISDA regulation of treasury relationships – are forcing consolidation of treasury activities, often resulting in the set up of internal banks, with a minimum of regional treasury centres.

The diminished number of sub-treasury centres are usually located in two or three of the international financial centres. Some multinationals have placed satellite treasury entities in connection with important production and distributing facilities, which has intensified the demand for real-time treasury systems controlled by treasury management.

Nordic treasurers often find themselves between a rock and a hard place. They rely on relationship banks to supply everyday services, but with banks focussing on shareholder value principles, business volume has become of increasing importance.

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As a result, combined with the reduced appetite of commercial banks for on-balance sheet assets, the Nordic giants face greater difficulty in documenting acceptable, reciprocal business cases with their traditional financial counterparts.

Challenges

For many years, Nordic treasurers have been envied for their ability to squeeze relationship banks for inexpensive, quality services and financing. Looking ahead, though, they face many challenges.

They need to find a way to maximise the return on treasury activities by limiting overhead and investments in operations combined with a focussed trading and cash management strategy.

Securing close trading relationship with leading international counterparts will also play an important part.

Ways to make the treasury business volume interesting for the global players need to be found.

Strategies and business plans that represent attractive business relationships for the relevant global financial counterparts, including ensuring adequate presence in international financial centres, need to be put in place.

What are the key issues?

A key issue regarding the availability of cost-effective financial solutions is critical mass based on standalone implementation and support. Previously, the treasurers have relied on relationship banks supplying inexpensive systems as part of the house bank relationship. Will continuous risk management consultancy and solutions be as easily available? The question is again centred on critical mass and making economic sense from the perspective of a standalone supplier relationship.

How can treasurers retain and build fewer, but mutually satisfactory, operating banking relationships? With a leaner business volume how does the treasurer make it interesting for the commercial banks to supply the day-to-day services?

Can treasurers avoid being penalised when in need of capital-intensive products – that is, will the company qualify for reasonable terms and conditions on financing? Again, on-balance sheet credit products have traditionally been available at attractive terms in an integrated banking relationship.

Treasurers need to prepare for the European single currency environment, where domestic financial markets might not stay as liquid and profitable.

At the same time, dominant international market players are actively moving funds and activities away from the less attractive domestic markets.

Nordic treasurers have already experienced the advantages of the consolidation within the financial sector. Treasurers will continue to enjoy being serviced by Nordic financial institutions representing international competencies, but they must also be prepared to be meet with return on equity requirements at international level! ■

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