GET YOUR PRIORITIES STRAIGHT

The role of the treasurer has evolved significantly, but with its broader remit come greater complexities and risks. Steve Donovan offers some survival tips

Times have changed for treasurers in the Middle East. Corporates that were once able to prioritise yield and growth have been forced by the economic, political and regulatory environment to re-evaluate the strength and efficiency of their treasury operations. Faced with the added pressures imposed by globalisation, they have found these operations to be inadequate.

In order to ensure business sustainability, corporates in the region have found that their treasury must adopt new systems and expand its responsibilities. The treasury function has therefore become even more complex. Previously, treasury priorities were focused on cash flow, bank relationships, corporate finance and FX risks. Now, in addition to cash and liquidity management, the treasurer must ensure working capital is used efficiently, and that payments are made and collected in a cost-effective way. The treasurer must monitor and foster relationships that now extend to multiple global counterparties across the supply chain and in various countries, each with different regulatory requirements. Additionally, the risk that the treasury must mitigate goes beyond FX to include political uprisings, turbulent economic environments and the increase in the different sets of counterparties.

What is more, within the company, the treasurer's role has evolved into that of an adviser. So its influence extends into new areas in the company, such as the procurement department. Finally, along with their new responsibilities, treasurers are faced with one other challenge: how to efficiently manage their new, wider and far more complicated role.

Changing priorities

Three key factors are behind the change in treasury priorities: globalisation; regulation; and the political and economic environment.

Globalisation has affected trade flows, not just between the developed and emerging markets, but also, increasingly, South-South flows. Of course, the Middle East is perfectly situated to benefit from the increased momentum of trade flows around the region since it provides a trade hub to meet the growing demand, especially in the Gulf Cooperation Council, the Levant and Africa. Consequently, corporates in the Middle East – particularly those based in the United Arab Emirates – have observed an increase in business volumes and counterparties.

While this is good news for Middle Eastern traders and corporates, an increase in counterparties also means an increase in risk. It falls to the treasury, therefore, to navigate through counterparty risks and negotiate trade structures with new suppliers and vendors. Such structures must not only address inherent counterparty risks, they also need to be bankable to ensure that the treasury can have the flexibility to convert its sales into cash faster and more cost-effectively.

Collaborating with a foreign counterparty could also expose the company to new payments systems, which the treasury must also manage. A global counterparty based in Europe, for instance, will have to be compliant with the Single Euro Payments Area (SEPA) from February 2014. Any Middle Eastern company wishing to collect or make payments within Europe will have to migrate to SEPA (which also means adopting IBAN and BIC).

Certainly, regulation is another factor that treasury must consider when managing the increase in global counterparties. Central banks in each country are transforming their internal infrastructures – implementing new solutions to help clear money faster, and therefore encouraging business. It is the treasurer's responsibility to ensure that business with its global counterparty aligns with the regulations and documentation imposed in both regions – the Middle East and that of the global counterparty. What's more, such regulation also impacts currencies – the use of the renminbi, for instance.

Of course, regulation affects other treasury priorities, too. The global economic crisis prompted the implementation of more stringent regulatory proposals. Basel III, for instance, requires banks in countries that belong to the Organisation for Economic Co-operation and Development to keep more capital on their balance sheets. Capital, therefore, is more expensive, and treasurers who wish to access bank funding must manage their liquidity to accommodate the corresponding increase in financial expense. Given the globalisation of businesses, treasurers must stay aware of such regulations and the changes they may trigger. Treasurers may be acting locally, but they need to think globally.

Finally, there is the political and economic environment of the Middle East. In addition to the global economic instability caused by the financial crisis, corporates in the Middle East also have to manage the risks posed by political instability – the Arab Spring and Egypt crisis, for instance. Previously, treasuries were unprepared for such challenges, and corporates suffered as a result. Now, however, corporates are wiser, and treasurers play a pivotal role in deciding which measures to adopt to protect against similar risks in the future.

A HELPING HAND

To take advantage of centralisation and automation, treasurers need to overhaul the existing infrastructure of their treasury, develop new strategies and implement new solutions – all while managing their existing responsibilities. Simplifying treasury priorities can be complicated in itself, but, thankfully, treasurers need not do it alone. Sophisticated banking partners are constantly working with treasury teams to structure new solutions.

With regard to visibility solutions, cash and liquidity management strategy and establishing regional treasury centres, banking partners can help treasury to become more efficient, manage risk and reduce costs. So while the treasurer's new role is now more complex, with the help of a partner bank a treasurer has the tools to make their expanded role more manageable.

Simplifying complexities

So how can the treasurer manage his or her new role? Despite all the intricacies of their new responsibilities, the core roles of the treasurer are, in fact, quite simple: increase efficiency, manage risk and reduce costs. Treasurers need to employ various strategies and tools that manage their new responsibilities with these agendas in mind. And they can do this using four methods: simplicity, control, planning and speed.

Complex processes need to be simplified, with centralisation being a key route to achieving this. By centralising processes, treasurers can control liquidity, cash management, payments and working capital operations – as well as risk management – all from one location, making them easier to manage. So corporates in the Middle East are increasingly establishing regional treasury centres and shared service centres to centralise and simplify responsibilities, therefore increasing efficiency and reducing costs.

Of course, centralising treasury operations enables greater visibility, which could lead to increased control. Treasurers need to clearly see what is happening – in order to manage processes – as well as what might happen. This allows them to implement improved strategies in the areas that need it most. For instance, the treasurer can see where working capital is being ineffectively employed – thus potentially reducing costs. Given this, treasurers in the Middle East are implementing visibility solutions in order to gain greater control over treasury operations. Indeed, not all companies are able to centralise their operations, particularly if their business has a decentralised structure. Through visibility solutions, however, they are still able to gain control over their operations – albeit less efficiently – without the need to centralise.

Once treasurers have simplified and gained control over payments, they can orchestrate payments to ensure they have the most cash at any one point. Objectives such as decreasing days sales outstanding and increasing days payable outstanding enable the treasury to collect payments faster and only pay just in time. Banking solutions that support these clear objectives have become increasingly important to treasurers since the recent financial crisis.

Finally, automation can be used as a tool to increase the speed and accuracy of transactions – again increasing efficiency and reducing costs. Manual processes are not only lengthy, but also leave a company exposed to human error and, potentially, fraud. Therefore, corporates and banks are increasingly integrating automated systems for both cash and trade processes. Within a treasury, this not only helps to simplify processes and provide visibility, it also gives the treasurer increased control over their new treasury priorities – all at the click of a button.

Steve Donovan is treasury and trade solutions head for the Middle East, Turkey, North Africa and Pakistan at Citi