A PRECIOUS PARTNERSHIP

Good relationships with banks free up Middle Eastern treasurers to focus more on their strategic priorities, writes Murali Subramanian

Over the past few years, the focus areas for treasurers have grown in number and complexity. Traditionally, treasurers would typically focus on operational activities related to cash flow management and bank relationships while contributing analysis and reporting to the CFO and board. Treasury would entail people managing spreadsheets in most but the largest organisations. And bank relationship management would typically involve measurable indicators such as fees, which would determine the success of the treasurer in managing costs. In most corporates in the Middle East, the role of treasurer was divided between the CFO, various support and strategic services, and treasury operations, and that continues in many organisations today. But though it may still remain a cost centre, a strategic treasurer role is clearly emerging as more areas come within its remit.

The aftermath of the financial crisis has led to a change in the funding options available to Middle Eastern corporates, as well as a reassessment of supply chains, which has resulted in greater focus on planning and understanding the alternatives in terms of trade finance, export credit finance, capital market and risk management opportunities. It has also increased the focus on governance and controls as well as efficiency, driven by the twin forces of greater regulatory oversight and a slowing world economy.

As a result, today's treasurer in the Middle East will typically focus on cash flow forecasting and cash stock maintenance; aspects of risk management; centralisation of payables and receivables; introduction of shared services; automation of enterprise architecture; bank interfaces; increased and sophisticated reporting requirements to management as well as regulators; trade finance and liquidity management; and bank relationship management and optimisation. Having to work to a budget has meant doing all of this with as many, or fewer, staff and only modest investment in IT infrastructure. Hence, though a Middle Eastern treasurer's role has become far more visible and strategic than before, in most cases, they are not business managers in the full sense of the words.

Now, treasurers increasingly interact with IT and other support services as they take over governance and administrative responsibilities, and look for the best possible platforms and architecture to build sustainable capacity. Treasurers want to optimise their processes, upgrade and rebalance their architecture, and integrate their systems with other systems within the company, as well as those of their banks.

The main IT areas of focus for treasury have been mobile banking; client/supplier management; e-invoicing; automated supply chain; cloud computing; analytics; workflow and business intelligence; enterprise architecture; and upgrading existing platforms, which often entails graduating away from spreadsheets. In addition, most large corporates deal with multiple banks, resulting in a large number of bank systems and governance to overlay an aggregated real-time picture. Becoming bank-agnostic is therefore yet another focus area. And there is significant development in common standards on messaging, such as the XML mark-up language and the MT798 messaging format that is used to send financial instruments, with enterprise resource planning systems allowing for adaptation to these standards.

There are some excellent examples of the new priorities for treasury being executed well. The government of Abu Dhabi has used an integrated IT strategy, rationalisation of processes and single treasury account maintenance as building blocks to administer more than 50 government departments that are supported by its budget. Though implementation is in various stages across the group, a clear road map and standards are in place, which have been of considerable assistance to treasurers at these entities in procuring banking services.

Regulation originating from the US (for example, the Foreign Account Tax Compliance Act (FATCA), the Dodd-Frank Act), the EU (for example, the Single Euro Payments Area (SEPA), the Payment Services Directive) and others (for example, Basel III) may not necessarily be directly relevant to a Middle Eastern treasurer, but it is important for their supply chains and is therefore on the treasurer's radar. For Middle Eastern treasurers, risk management has tended to be more focused on interest rate and currency risk than derivatives, but it is becoming a greater priority for them. Hence, it is fair to say that a treasurer has a much more visible and complex job than a few years ago and has little time to plan or retrain.

The role of banks

The role of a transaction banker has changed as much as that of the treasurer, and almost every bank with corporate clients has moved towards creating a distinct transaction-banking role that consists of relationship management, payment operations and IT. The reasons for this, however, are quite different. Transaction banking revenue streams, especially from float balances and fee income, are seen as attractive given their annuity nature and the perceived 'low maintenance' once a client's business has been won, compared with the effort required in generating the same from investment banking or treasury.

Banking has been as affected as corporate treasury from the changes that followed the financial crisis discussed earlier. Regulatory compliance has been given centre stage and the Middle Eastern banking industry has significantly invested in upgrading transaction monitoring, interdiction, screening and correspondent banking – all driven by the very direct focus from overseas regulators. While SEPA credit transfers and direct debits have been very much a European event, banks serving regional multinationals that have businesses in Europe have needed to stay abreast of the changes. Basic changes are taking place across banking processes in the Middle East to reflect the implications of FATCA and Dodd-Frank, and corporate clients as well as correspondent banks have shown a preference to work with those Middle Eastern banks that are furthest along. Hence, banks have had to focus more on cash management, trade and supply chain financing from a product offering, as well as governance, standpoint.

A strong partnership between corporate treasury and banks requires banks to provide services other than just transaction banking. These include:

- Cost management. As noted earlier, treasurers have traditionally worked with banks on managing direct costs and delivery, and execution of payment instructions.
- Thought leadership. Good banks focus on today's priorities; the best focus on where trends will lead and plan for them. These might include peer trends globally, leveraging bank IT partnerships, developing automation through electronic bank account management, virtual accounts and business process outsourcing.
- Treasury automation. This is not a treasurer's challenge alone; it also has to be a partnership with banks, especially given the centrality of cash management.
- Focus on shared services and the creation of a bank within treasury for the largest organisations. In addition, straight-through processing and operational risk reduction across companies of all sizes.
- Liquidity management. This applies both to excess cash as well as deficit by means of trade techniques.
- Automated, and value-added, trade finance for documentary credits, and supplier financing to free up general purpose financing facilities.
- Proactive and value-added client service.

Bank reviews

Is bank review a requirement? Yes, but this process is not practised widely apart from within multinational corporates. The main factor driving bank relationships is still relationship – and not service, pricing or products – although a significant shortcoming in these areas could lead to a re-examination. It has been observed practice in the Middle East that treasurers use visible shortcomings to drive performance from their current banks rather than switch. In many cases, that is a CFO-level decision, which treasurers are only partly stakeholders to, and it is driven by the absence of a clear understanding of the alternatives as well as apprehensiveness about the difficulties of leaving an existing relationship for a new one. Here, banks need to demonstrate their ability and credentials to ensure a smooth transition, so that treasurers can still get the best value from their banking relationships.

Not all treasurer-bank relationships are opportunistic or one-sided. There are several excellent case studies available in both the United Arab Emirates and the Middle East more generally that demonstrate how a treasury and bank have worked together to streamline and manage risk, improve the visibility of the organisation's funds globally and allow the treasurer to focus on their main priorities while deploying minimal resources to run day-to-day bank relationships.

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