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A STRONG PARTNERSHIP

Economic volatility and fast-paced change are still the norm – and they're fostering banking innovation

The uncertain political and economic backdrop to our business lives has carried over into 2019 and shows no signs of lifting any time soon. Corporate treasurers continue to grapple with a veritable alphabet soup of regulatory measures. Meanwhile, the drive to improve processes goes on.

If embraced appropriately, change can open the door to innovation. Open banking, for instance, is delivering a wealth of opportunities in our personal lives via retail banking. From September, corporate treasurers stand to benefit in their business lives too, as banks work with aggregators to deliver an integrated overview of financial data, yielding greater insights.

While innovation promises a great deal, we understand that corporate treasurers are not necessarily looking for a vast array of new solutions. We at Barclays, as bank providers, are focused on the technological advances that help to add value, such as applying analytics capabilities to enable you to forecast positions and trends.

The continued demands on you – your deepening role as strategic advisers, for instance – bring challenges and pressures, as well as opportunities. As service providers, it is incumbent on us to ensure that we assist you in meaningful ways. What I overwhelmingly hear from clients today is that no matter what they are dealing with – the challenges they're facing or the impact the regulatory framework is having on their business – what they need from their banks is for us to focus on their journey with us as a client.

As corporate treasurers, what you rightly demand is a simple set of transaction services with the option of self-service, seamless transfer of data between website and mobile devices, and the ability to view balances and conduct transactions while you're online or on the move. And, because human interaction cements our relationship, you want to be able to reach your relationship manager when you need to.

What follows is a detailed report on the ACT Cash Management Conference, which we were delighted to sponsor once again, sharing many insights into cash management issues.

KAREN BRAITHWAITE IS GLOBAL HEAD OF TRANSACTION BANKING AT BARCLAYS

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REPORTING: LIZ LOXTON / CONFERENCE PHOTOS: CAROL MOIR

ON MESSAGE

The conference provided a wealth of cash management insights. Here are the key takeaways

ADDRESSING THE BASICS

The changing economic climate and looming prospect of Brexit make strong cash management fundamentals more important than ever. Maintaining a strong hold on FX management, getting the fundamentals of cash and transaction banking right, and maintaining strong risk management controls will only give corporates greater resilience in the face of change in the macro-economic environment.

Those treasurers who understand and communicate cash metrics to the wider business make a strong contribution to the health of their organisations. The fundamentals of cash-flow forecasting, monitoring liquidity and maintaining strong and sufficiently flexible treasury policies will prove critical as the economic cycle changes.

Time and again, panellists rightly placed a premium on these activities. Having sound foundations, before embracing the possibilities that fintechs and blockchain technology might have to offer further down the track, is core to the treasury discipline. "We have to get these fundamentals right before we can look to the future, to be ready for the change the industry is dealing with," said one panellist.

BREXIT

With Brexit looming, conversation never strayed far from the implications. Longed-for direction for businesses seemed further off than ever, and speakers pressed the point that uncertainty – globally, as well as in Europe – will only continue in 2019.

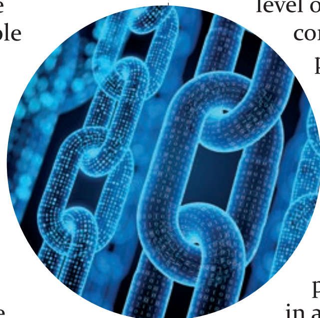
That said, presenters also posited some positive outcomes as they considered the potential routes treasurers might take through the coming changes. Cash pooling and cross-border payments were the subject of an illuminating presentation from Barclays. The opportunities that might present themselves when businesses look above the parapet towards a more global trading environment were also discussed. Treasurers will continue to play a role in identifying their organisations' exposure to Brexit, but can also help to emphasise the upsides and opportunities that are a result of change and uncertainty, as markets shift and trading flows open up.

> "Speakers pressed the point that uncertainty – globally, as well as in Europe – will only continue in 2019"

CYBERSECURITY

Assessing payment fraud risk and keeping abreast of cyberattacks are now fundamentally part of the treasurer's remit. Delegates at this year's ACT Cash Management Conference heard that over half of all frauds committed in the UK are cyber-enabled. And the resources and ingenuity of cybercriminals and hackers are not to be underestimated. Cybercriminals offering cheap hacking tools online are numerous, and many of the people behind these offerings learned their skills while working for police and military forces in hostile states.

Corporate payment channels remain vulnerable to both sophisticated, organised large-scale attacks and breach attempts that come in via emails, direct messages and telephone calls. In fact, targeting individual members of staff in an organisation is the most common route in. Hackers can be plausible and their attempts are increasingly refined. Combating them depends on training and empowering members of staff so that they are updated on hackers' evolving techniques and sceptical of even apparently routine requests to move funds. Staff members reacting in haste to ad hoc requests, however credible, are a key vulnerability. The combination of skilled and vigilant staff, well-maintained processes and controls, and resilient systems will be crucial to keep losses to a minimum.



REGULATION

High volumes of complex regulation have come into force since the financial crisis and have created considerable compliance burdens for corporates, and particularly treasurers.

Whether it is dealing with high volumes of paperwork to keep banks and service providers happy on a know-your-customer front, addressing the future transition from Libor to alternative risk-free rates or keeping up to date with anti-money laundering requirements, regulation is a constant challenge.

International accounting standards continue to have an impact, as does MiFID II. However, within the many sets of rules and regulations, there is scope for treasurers to add value to their organisations by understanding both the restrictions and the allowances.

What is more, delegates commented that, since neither regulatory nor technological change are likely to cease, marrying the two and looking for ways in which fintech solutions can ease the regulatory burden is sensible.

TECHNOLOGY AND INNOVATION

Treasurers' decisions on technology have to be grounded in the practicalities of what it can achieve and for what level of investment. Panellists commented that, in the past six to 12 months, conversations around blockchain seem to have abated, while treasurers have focused on present-day issues rather than technologies that still have far to go beyond proof of concept, except in a very few cases.

That said, the potential for technology to ease burdens and streamline processes remains compelling. Delegates heard from four fintech providers on possible ways of addressing their cash-flow forecasting, FX management and card-processing issues.

SPEAKERS AND PANELLISTS

- Naresh Aggarwal, associate policy and technical director, ACT
- David Blight, detective constable, City of London Police Cyber Crime Unit
- Joanna Bonnett, group treasurer, PageGroup
- Karen Braithwaite, global head of transaction banking, Barclays
- Simon Brooks, senior product manager, Pay.UK
- Nicolas Christiaen, CEO, Cashforce
- Philip Connell, global treasury manager, The Body Shop
- Nicola Coyne, head of European payments, Barclays
- Conor Deegan, managing director, CashAnalytics
- Bradley Gains, treasury manager, UPS Global Treasury
- Simon Jones, treasury consultant and fintech adviser
- Peter Keenan, CEO, APEXX
- Stephen Lemon, vice president of corporate development, Currencycloud
- Alex MacLean, director of cyber and information security, Barclays Corporate Bank
- Austin Matthews, assistant treasurer, Sky
- Peter Matza, speakers' chair, ACT
- Tim Murphy, fixed income rates applications specialist in the analytics group, Bloomberg
- Stephen Powell, partner in financing, Slaughter and May
- Jan Putnis, partner in the financial regulation group, Slaughter and May
- Silke Reimers, director of global treasury operations, Unilever
- Subas Roy, partner, Oliver Wyman
- Alastair Sewell, head of fund and asset manager ratings for EMEA and Asia-Pacific, Fitch Ratings
- David Shinkins, global head of cash management, Barclays
- Robin Terry, vice chair of cash management and transaction banking, Barclays
- Karl Trumper, head of trade and working capital UK, Barclays
- Simon Viney, cybersecurity financial services sector lead, BAE Systems Applied Intelligence
- Paul Watters, head of corporate research for Europe, S&P Global Ratings
- Ian Wheeler, CEO, Income Group
- Chrysoula Zervoudakis, co-founder, STRIBA

STRONG FOUNDATIONS

What are the hallmarks of sound cash management? What do rating agencies and investor groups look for?

A panel drawn from rating agencies, an investment house and treasury explored the fundamentals of cash management and what it reveals about the overall management and governance of corporates. While the participants had different perspectives, they were aligned on the contribution that treasury makes to financial stability.

CORE PRINCIPLES

As a research analyst and investment consultant, Chrysoula Zervoudakis, co-founder of STRIBA, a corporate governance consultancy, pointed out that, when investors evaluate companies, they focus on cash generation as the most important indicator of responding to change, investing for the future, creating value for key stakeholders and managing risks effectively. Prudent cash management policies indicate good governance and fair treatment of customers and suppliers.

Vigilance and caution are cash management bywords for Austin Matthews, assistant treasurer at Sky. A treasury function that knows how much cash it has available on a daily basis and that, furthermore, understands the business' sources of cash cannot go too far wrong. Communicating cash metrics around the business is important also. "Too many businesses concentrate on revenue, growth metrics and EBITDA, and forget about cash," he said.

From a rating agency perspective, bread and butter measures are key, said Paul Watters, head of corporate research for Europe at S&P Global Ratings. "We're looking at cash-flow forecasting, sensitivity analysis, financial policy and treasury management policy – but also making sure you have sufficient liquidity buffers in place to cope with any adverse circumstances," he noted.

When it comes to looking at corporates as investors, a strong and current treasury policy is a hallmark of quality, said Alastair Sewell, head of fund and asset manager ratings for EMEA and Asia-Pacific at Fitch Ratings. "An adaptable and live treasury policy that can accommodate relevant cash investment options is a critical factor for many corporates," he said.

EVENT SHOCK

An audience poll found 31% of participants had changed their treasury or risk management policies in the run-up to Brexit, with 27% still at the planning stage and 42% yet to adjust their policies.

The results begged the question whether events such as Brexit should prompt changes in the approach to treasury and risk management, or whether 'managing Brexit' should be part and parcel of effective day-to-day risk management.

CASH MANAGEMENT TIPS

- Remain focused on treasury fundamentals. So, when assessing the strength of the business, say, always start with cash position and the bank balance over the budget or top-down forecasts.
- Be alert to trends, such as lengthening payment times, which send negative signals to equity markets and lenders.
- As quantitative easing ends and the cycle changes, financial flexibility is going to become more and more important.
- When monitoring fund risk (say, interest rate sensitivity) bear in mind that MMFs are the canaries in the coal mine – they react quickly to actual and perceived risk by modifying portfolio positioning; post-reforms, there is more conservatism built into these funds, though changes will be modest for Fitch-rated funds.

Matthews said that Sky, for instance, hadn't changed its treasury policy in relation to Brexit, since the policy was designed to be inherently flexible. "If you have too rigid a policy, you might not be able to respond sufficiently. If you have too loose a policy, you might run into difficulties as well. I think the key is to have a forum for discussion of all these issues. Make sure you're talking about these things as they are happening so you can set your strategy accordingly."

Watters said addressing unknown risks was very much a developing area. "I was interested to see that the Bank of England in its next round of stress tests is talking about aspects like cyber and climate as areas where it should stress-test banks. Those are areas that are very difficult to quantify in any meaningful way, so I would say one has to think broadly, recognising that you won't have all the answers but that, actually, within reason you can cushion for these types of shocks."

EURO RISK

The negative interest rate environment for euros has led to a low appetite for holding them on the part of many corporates and has had an impact on treasury policies, said Sewell. Many investors have sought to minimise their exposure, while businesses that do need to hold euros have had to accept negative yields or pursue yield, in some cases from higher-risk investment vehicles. Fitch has pushed its forecast for positive euro interest rates by the end of 2019 to 2020. Following the advent of negative yields in euros, assets invested in the euro short-term money market fund (MMF) sector decreased quite sharply, with investors moving money out of those funds into another variety of MMFs carrying more investment risk and hence able to generate a positive or at least zero yield for a time.

"Obviously that comes with a certain risk appetite evolution, which wouldn't be palatable to all investors, but we saw that trend, which was a rational response to the yield environment being negative," Sewell said. "It's about balancing the euro exposure you have against the yield environment you'll be experiencing in short-dated investments."

MMF REFORM

Reforms to MMFs have been on the agenda since the financial crisis, when, famously, one fund went into financial distress owing to its exposure to Lehman Brothers securities. The global regulatory push to reform these funds has been playing out within major markets with the aim of shoring up the credit fundamentals within funds and making them better able to withstand market stress.

The reforms have taken time – they are ongoing in China, the world's second largest domicile for MMFs – and have added to the communication burden of treasurers. But the resulting framework has been well received overall.

"For us the issue is making sure we've informed senior management, the accountants are happy with the accounting treatment, and making sure the rating agency's position is understood. It's a complex issue, but the solution is good," said Matthews.

TREASURY POLICIES

When it comes to treasury policies, the panel agreed that these should be up to date and should be constructed with reasonable flexibility and with due regard for stakeholder management and the overall financial soundness of the business.

"The key aspect of any policy is that it should be flexible and adaptable. As to how often it should be updated, we would want to know that companies are thinking about and adapting to risk to get comfort from a governance perspective," said Watters.

PARTICIPANTS

- Austin Matthews, assistant treasurer, Sky
- Alastair Sewell, head of fund and asset manager ratings for EMEA and Asia-Pacific, Fitch Ratings
- David Shinkins, global head of cash management, Barclays
- Paul Watters, head of corporate research for Europe, S&P Global Ratings
- Chrysoula Zervoudakis, co-founder, STRIBA

BARCLAYS

FOR THE LOBBY

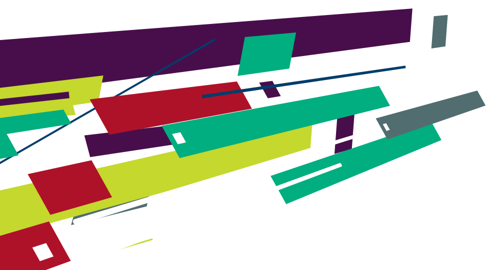
Regulatory experts argued that there is more scope to influence how rules are applied than may be apparent…

In a panel discussion providing an overview of current and pending regulation, delegates were urged to participate in consultation exercises and consider the implications of legislation regarding service providers. The regulatory environment is ambiguous and continually changing, which creates an ideal role for the corporate treasurer to play in the future.

LIBOR TRANSITION

The transition away from Libor towards alternative risk-free rates is a case in point. This pending change will be transformative, and progress towards alternatives is complex, with banks and regulators in different jurisdictions beginning to weigh up alternatives such as SONIA and SOFR. For corporate treasurers, there is a great deal of work to be done to address the wording in both new and existing contracts. And, for future transactions, banks are beginning to draw up plans for transition and to strategise for 2019 and 2020.

Various groups are engaging with the issues around transition. The Sterling Risk-Free Rate Working Group is working with the Bank of England on the transition, and the ACT has a Risk-Free Rate Corporate Forum.



"The important thing at this stage is for corporate treasurers to participate in the discussion," said Stephen Powell, partner in financing at law firm Slaughter and May. "Deciding on rates in both your investing capacity and your borrowing capacity is really important. I urge you to get involved in the various committees and consultations."

Subas Roy, partner at Oliver Wyman, agreed. "I think there is a responsibility to look at the working committees. These are open committees and we see all the big six banks participating, which is important."

ANTI-MONEY LAUNDERING

Turning to the wider regulatory framework, the panel touched on anti-money laundering. The Fifth Anti-Money Laundering Directive (AMLD V) will come into effect by 2021, with responsibilities extended to a wider group of businesses

and greater responsibilities to monitor high-risk transactions.

Another emerging issue, said Jan Putnis, partner in the financial regulation group at Slaughter and May, is whether the entities in which corporate treasurers operate must be registered for money laundering regulations due to the financial activities they are involved in. "The sorts of areas that give rise to concern are the various forms of financial support you may choose to give your customers or suppliers," he said. While the sale of equipment or services on credit would not generally attract the need to register, "some of the financial arrangements being offered by corporate treasurers in certain sectors to customers and suppliers are proving quite sophisticated and can lead to a registration requirement under AML legislation even though those treasurers' operations are not regulated in themselves".

IFRS 9 AND MIFID II

The panel touched on some of the nuances of regulations such as IFRS 9, *Financial Instruments* and MiFID II. Corporate treasurers will need to look closely at the applicability of hedge accounting to their operations, particularly those corporates that trade in derivatives, in which case MiFID II regulations might also be relevant. "You will need to have a good understanding and become prepared," said Roy.

Developing an understanding of how these pieces of legislation affect their operations should prompt treasurers to open or continue discussions with their banks, if they haven't already done so, to find out how new regulation might shape their interactions. "Regulation may affect you directly, but more often it affects your financial institution counterparties, your relationship banks. And, more often than not, there is some knock-on effect on the quality of service or the product you receive from them," said Putnis.

RING-FENCING & SERVICE LEVELS

The issue of how regulation affects banks' service levels is a particularly relevant feature of the ring-fencing of banking operations in the UK, Putnis said. Many corporate treasurers will have engaged with their relationship banks already on how ring-fencing will affect or has affected their interactions with them.

Left to right: Jan Putnis, Subas Roy, Stephen Powell and Naresh Aggarwal

> "A grounding in the basics of what ring-fenced banks can and cannot do is important"

In the UK, the largest banking groups have had to split in two, with a ring-fenced bank that is retail and SME-focused. Those banking groups have corporate customers as well, Putnis explained. Non-ring-fenced banks house investment banking and more sophisticated corporate banking services.

"Some of you will already have banking relationships with so-called non-ring-fenced banks, from which you can receive a variety of services that ring-fenced banks are not allowed to provide as a matter of law," he said.

"Others of you will have opted for the relative safety of placing your money with a ring-fenced bank in the knowledge that the range of other, more exotic products won't be available because the ring-fenced bank's room for manoeuvre has been restricted by the legislation."

All of the banks have had a choice on how to implement ring-fencing and so, to an extent, the decision as to where corporate treasurers might place their business within the restructured banking groups is not black and white. "There is some flexibility in terms of whether a large corporate banks with a ring-fenced or a non-ring-fenced bank. Not all the banks have set in stone where they are placing corporate business and many corporate treasurers now have relationships with both ring-fenced and non-ring-fenced banks for different types of service.

"It is worth having a grounding in the basic restrictions that apply to these banks so that you can understand which questions are likely to be answered with a firm 'no' because a course of action or product is not legally possible, and also to understand when you receive the answer 'no' because a proposal does not make commercial sense for the bank. So knowledge of some of the basics as to what ring-fenced and non-ring-fenced banks can and cannot do is important."

The quality of the service that corporate treasurers get from their relationship banks will often depend on how they have decided to implement a particular piece of legislation, Putnis emphasised.

PARTICIPANTS

- Naresh Aggarwal, associate policy and technical director, ACT
- Stephen Powell, partner in financing, Slaughter and May
- Jan Putnis, partner in the financial regulation group, Slaughter and May
- Subas Roy, partner, Oliver Wyman

NOT IF... BUT WHEN

Sharing information on how hackers seek to manipulate us is the first step to beating them, delegates heard

Fraud, as reported in the 2018 crime survey by the UK's Office for National Statistics, has mushroomed. We are now more likely to fall victim to fraud than any other crime, according to the findings, and over half of all frauds are cyber-enabled.

It is an issue that has moved up the corporate agenda and one that can have a personal, as well as a professional, impact. The underground economy is populated by highly skilled, highly organised groups that operate at the forefront of technological developments. Keeping track of trends and modes of attack has become as important for treasurers as staying abreast of payment technology or financial regulation.

THE CYBER REALM

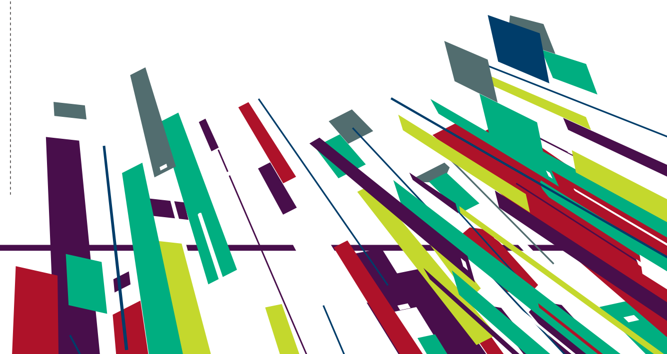
Speaking for Barclays at a well-attended session on cybercrime, Alex MacLean, director of cyber and information security for Barclays Corporate Bank, made clear just how readily available hacking tools have become online. Even a quick Google search will reveal the workings of what has become known as 'crime as a service'. "One of the really worrying trends in the cybercrime economy is that a lot of it is not actually all that underground," he said.

Cybercriminals offer customisable malware for as little as £250. There are also organisations that offer hacking software that comes with service-level agreements, money-back guarantees and seven-day turnarounds for changes. Treasurers should not be in any doubt about the effectiveness of these tools or the expertise of the individuals behind the websites offering them for sale. "We've got to be very cognisant that they are often leveraging tools designed for state intrusions – so very sophisticated technology. They are adept at modifying and manipulating these technical tools for malicious attack purposes, and then selling them as commodity malware offerings extraordinarily cheaply," MacLean said.

PAYMENT CHANNELS

One of the most significant hacks of recent years, the 2016 defrauding of Bangladesh Bank of $81m, demonstrates the difficulty that organisations face when it comes to detecting assaults on their financial infrastructure. In this now notorious case, cybercriminals used the SWIFT network to initiate fraudulent transactions, although the SWIFT network itself wasn't compromised.

Simon Viney, cybersecurity financial services sector lead at BAE Systems Applied Intelligence, explained the detailed planning that went into the attack. "One of the accounts used by the perpetrators was set up in May 2015, but the attack itself didn't take place until February 2016, around the time of the Chinese New Year. Cyberattackers like to choose holidays or weekends, because organisations don't react as quickly," he said.



Breaching a network and remaining undetected for a significant length of time has become a hallmark of subsequent successful attacks. In the Bangladesh Bank case, the attempt to move around $1bn of funds was picked up in the course of verification procedures carried out at the US Federal Reserve, from where funds were being moved. The length of time the hackers had spent familiarising themselves with the bank's internal systems and messaging channels, and the sophistication of the malicious software used by the attackers to hide their activities, meant no anomalies were detected at Bangladesh Bank.

This particular criminal group went on to target other banks, Viney explained, including carrying out last year's assault on India's Cosmos Bank. This time, the cybercriminals evolved their approach in their continued search for a weak part of the system. In this case, the bulk of the eventual $13.5m fraud was stolen via ATMs. "In 28 countries, over a period of about two hours, they conducted 12,000 transactions," Viney said.

INDIVIDUALS TARGETED

While these large-scale hacks show the ingenuity of sophisticated cybercriminals, it is important for treasurers to remember that in many cases hackers still operate by targeting individuals.

The majority of corporate breaches are a result of malicious outsiders targeting insiders over email – often front-office staff whose credentials are readily available online via social media, MacLean noted.

When it comes to fortifying organisations against cybercrime, awareness, training and empowerment are therefore essential. "Don't adopt the 'It won't happen to me' approach," Viney warned. "It could happen to you as a consumer; it could happen to you as a member of staff; it could happen to a member of your team if you are a senior manager. You have to assume that at some point someone will try to attack you and your organisation."

Members of staff should treat all transactions as suspicious and must be empowered to challenge and verify payment instructions, he said. "Tens of millions have been lost to organisations via CEO fraud. Someone purporting to be the CEO or other executive-level individual calls, telling an individual they have to transfer an amount of money quickly. They might follow up with an email to the individual to convince them the request is legitimate, but the email will be fake. Empower staff and let them have the freedom to question transactions."

Given the ubiquity of cybercrime, adopting as many defences as possible is paramount. MacLean recommends that organisations:

- hire top talent;
- use the best technology possible to detect and stop threats;
- undertake good housekeeping measures, such as patching;
- build in resilience so that, if one element of a system goes down, it can be isolated; and
- test, exercise and validate all controls.

POINTS OF ENTRY

With data proliferating and business relationships and networks increasingly internet-enabled, points of entry will only multiply further. Data breaches often occur via a third party, including trusted partners and suppliers, MacLean pointed out. "We may have tight controls, but their controls might not be as tight. Combating that is going to be a key factor in winning this battle. Third parties will control 75% of global IT infrastructure by 2020 – that's a scary thought. How those players will interact with us and our data and how they will process our payments remains a key concern. What we have to do is to have rigid controls over those third parties."

THE CYBER GRIFFIN INITIATIVE

City of London Police plays an active role in tackling cybercrime by both disseminating information on current threats via free monthly briefings and offering advice on how to respond, David Blight, of the force's Cyber Crime Unit, said (see www.colp.uk/cybergriffin).

No organisation is too large to be attacked, he noted, and businesses must equip themselves to counter current threats. For example, they can take advantage of free incident-response training, which gives an insight into how well equipped they are to resist attacks.

Left to right: Simon Viney, Alex MacLean and David Blight

Also, the National Cyber Security Centre, part of GCHQ, publishes weekly threat reports and guidance on a wide range of threats. "It's abundantly clear how sophisticated all this is," said Blight.

Above all, seeking and sharing advice, staying up to date and training staff to question even seemingly routine requests and transactions is key to staying ahead of cybercriminals.

ADVICE POINTS

While effective cybersecurity measures are essential to prevent sophisticated hacking attacks, many attacks simply seek to trick individuals, and rely on making the recipient act quickly and possibly in panic. Don't react in haste. Rely on your usual checks and challenge transaction requests using trusted verification channels.

PARTICIPANTS

- David Blight, detective constable, City of London Police Cyber Crime Unit
- Alex MacLean, director of cyber and information security for Barclays Corporate Bank
- Simon Viney, cybersecurity financial services sector lead, BAE Systems Applied Intelligence

TALKING TECH

Fintech providers continue to address overpriced and complex niches. Four providers made a case for their solutions...

CASH FORECASTING

Corporates face considerable challenges around cash forecasting – accuracy and timeliness foremost among them.

Nicolas Christiaen, CEO and co-founder of Cashforce, sympathises with these difficulties. "Coming out of private equity, I was dealing with working capital daily, trying to make sense of it," he told delegates. "Active forecasting is time-consuming. We consolidate a lot of data manually and, when we come to the most important measure, accuracy, we find ourselves with a gap."

Cashforce was created to save treasurers time, as well as cash. It has three modules, covering working capital, analytics and forecasting. Working capital is the starting point. Cashforce takes data from ERP systems – payables, receivables, purchase and sales order information – to make sense of the leading and lagging KPIs around working capital.

The forecasting module starts with these insights and adds bank statement and general ledger entries to provide granular insight into the cash-flow drivers (by cash pool, entity, currency and so forth). The forecasts can be configured as 13-week rolling forecasts, and, using historical data on customer behaviour, for instance, provide a meaningful projection, highlighting where receipts might undershoot by time or amount. "We can compare our actuals with our forecast, by entity, business unit or division, or whole entity. If we see a big difference, we can identify the driver behind that."

Christiaen's contention is that making forecasts based on ERP data alone will not give an accurate forecast. "We've layered a buffer on top of that forecast that comes very close to that actual, looking back in time and understanding how the actuals were inaccurate compared to the forecast. And, of course, machine learning means the algorithm gets smarter each day as it gets new data."

FX & INTERNATIONAL PAYMENTS

With around 18 million businesses operating across borders every year, the market for FX and international payments is vast. It has traditionally been served by mainstream providers and characterised as a high-margin sector.

Stephen Lemon co-founded international payments platform Currencycloud on the basis that the platforms of the day were focused on saving costs for service providers – further building strong margins on high-volume business – as opposed to reducing costs and improving the experience for the end customer. "The internet was giving rise to a multitude of opportunities, and organisations were building online platforms with the idea that you could provide a service to your customers but save costs yourself and become more profitable. No one was yet focused on the customer," he said.

It has never been easier to transact on a global basis, Lemon explained, but expectations are evolving, as is the business environment. "The customer is increasingly demanding and there are more expectations around transparency, faster payments and lower costs. That's not going away. The other major change is the increasing requirement for control and security."

Lemon and his co-founders built Currencycloud around a modular approach, with the aim of making it easier to pass efficiencies to the end customer. Selling only to intermediaries, customers include Travelex, Bottomline and Starling Bank. "We sell a payments toolkit to banks, brokers and payments providers.

will have gone up by 200%." APEXX has built a solution that automates the auditing of scheme fees and interchange, which is particularly relevant to operators carrying out cross-border transactions. "The way in which interchange and scheme fees are charged is very complex indeed and almost impossible to track without a platform."

We've built our platform in a fashion that automates and streamlines all the business processes around collection, conversion, pricing management, risk management, compliance, transaction monitoring, sanctions screening and payment distribution." Customers can choose from modules that are accessed through a suite of APIs to build their own payments services. "The idea is that they can quickly and easily create custom solutions, on an established infrastructure, leaving them to focus on what's important – the end customer."

CARD PAYMENTS

APEXX is an example of a fintech operation borne out of market responses to regulatory change, in this case in the retail space. As Peter Keenan, CEO and co-founder, explained, this is a sector that has seen phenomenal change in the past five years. In 2015, the EU brought in regulations that hit card schemes and issuing banks in particular, when it capped the interchange for debt and credit charges at 20 basis points and 30 basis points respectively.

After the Interchange Fee Regulation (IFR) came into effect and Visa Inc acquired Visa Europe, card scheme providers started increasing scheme fees. Before, the bulk of costs were made up of interchange fees: some 85% of the total cost of charge acceptance was interchange, around 10% was scheme fees and 5% was the acquirer margin; after, the interchange dropped to 75% of the total, while scheme fees began to increase to a point where today they make up almost a third of the merchant service charge. While the interchange has been legally capped, scheme fees are not regulated under the IFR.

The changes have resulted in staggering increases in costs for card scheme users, said Keenan. "If you're processing domestically and you're a high-street retailer, your scheme fees over the course of the past three years will have gone up by 200%."

PAYROLL

Real-time payment processor Income Group uses a solution connected to Mastercard Send in the UK payroll market to save transaction costs and de-risk processes. When you talk to payroll users, CEO Ian Wheeler explained, there is an assumption that payroll is straightforward. "You talk to the payroll community and they say it is fraught with risk and stress. There is a lot of activity in a short period."

The first thing Income Group wanted to uncover was the true cost of a three-day payment operation. "We found we could make a 50% saving on the transaction cost." Turning its attention to the process, the company found the three-day window has become unfit for purpose, and a poor match with transaction times, taking into account all the notifications made to payroll in terms of including new staff or removing leavers, and the checks that must be made on the run itself.

The Income Group version of payroll expands the time allowed for checks and streamlines the payment itself. "Rather than two days to check, we've got five days and, on the fifth day, we make the three-second payment. Typically, the payment is released the day before and the next day goes into employees' bank accounts. So it's a lot lower-risk."

Income Group has payroll users that make millions of payments per month. Others process one to two thousand. "It's built for both significant and low volume," Wheeler said.

"The customer is more demanding and has more expectations around faster payments and lower costs. That's not going away"

'A FORCE FOR GOOD'

How beauty retailer The Body Shop transitioned from a multi-bank, multi-platform set-up to a modern payments factory

With a mixed structure of franchise-owned outlets and company-owned country markets, The Body Shop's payments infrastructure was, until recently, dispersed across multiple banks and heavily dependent on manual processing. Global treasury manager Philip Connell (pictured) described the transformation involved in establishing a UK-based payments factory that would streamline payments, reduce inefficiencies and create a secure and transparent set-up.

BEFORE

Life for the retailer's treasury team before the payments factory was onerous and heavy on manual administration, Connell said. Payment authorisers would carry 12 devices with them to cover the different banking platforms. There were 40 banking relationships and a mix of global and local banks. Payment files were uploaded manually to the multiple platforms, and controls varied depending on the market. Bank statements also had to be uploaded manually before reconciliations could be carried out. And manual payments were made onto the banking platform. Not only that, but payment files were sent and approved by email.

AFTERWARDS

Today the retailer has a streamlined solution, with one banking platform that aggregates all bank information, not just that of the main cash management bank. That provides full visibility and cuts down the sheer number of relationships that have to be managed. "We have a handful of key relationship banks. We have centralised treasury, so it is very clear that treasury owns all banking relationships. There is a uniform approach to payments, all processed by the ERP. We have a centralised bank mandate and a single banking platform," explained Connell.

The payments factory has improved security too. "There is secure payment file transmission, with encryption and host-to-host transmission, reducing the chance of fraud."

The payments factory has also led to fewer bank accounts and automatic uploads of bank statements, reducing manual processing. It has further helped The Body Shop to reduce time spent on manual payment processing, which aligns with its commitment to try and pay all suppliers on time, within fair payment terms. Another benefit has been a reduction in the amount of paper used – around 500 A4 sheets fewer per week.

So how does it work? "We have a bank account structure domiciled in London for foreign exchange and super payments, and regional accounts in the Americas and Asia-Pacific. The bank account structure is payment-specific – for example, accounts receivable and accounts payable accounts – and we have a host-to-host connection with the bank, enabling instantaneous file transfer, increasing automation, along with quicker transaction processing time, allowing for later payment cut-offs."

> "The factory has improved more than just efficiency – security is better too"

In a normal week, the payments factory schedules automatic payment runs, which can be checked and approved day by day. By Tuesday each week, the payments run is established and visible to the treasury team. "From my perspective as a treasurer, I have the ability to know exactly what payments are going out in the week, so I can fund accordingly, move funds into position and, mostly importantly, ensure the cash is in the right place at the right time in the right currency," Connell said.

GROUND WORK

An overhaul as far-reaching as this requires painstaking preparatory work, beginning with some fundamental questions based on organisational requirements. "Scope out your organisation and your needs. What are you trying to achieve with this project? What level of automation are you trying to achieve? Are there countries or currencies that will be excluded?"

Clarity is a prerequisite for success. "Be very clear on the objectives you're trying to achieve. Without clarity, the project's scope could keep changing, which would lose time. It's fine to have a large scope, but break it down and remember you can have a phased approach."

Careful planning is vital. Once the project is broken down, tasks need to be allocated and clear deadlines set.

"Above all, it's very important you have key stakeholder buy-in, without which your project will die," said Connell.

CASH CALL

How to stop cash building up in difficult territories, and what to do when cash becomes trapped

With company entities in 100 countries and sales in more than 190, global consumer goods giant Unilever is familiar with situations that can give rise to trapped or restricted cash.

Director of global treasury operations Silke Reimers (pictured) explained that forethought and good housekeeping are valuable tools. Encouraging local entities to operate in a way that minimises their levels of cash held is helpful guidance. And, if cash does become trapped, there are approaches that will help to limit the impact.

BEFORE CASH BECOMES TRAPPED...

The list of countries where cash can become trapped is not static, so the first cautionary step for a treasurer is to think about the structure and business model of any entity in a difficult territory. Does the business want to import into that country or to produce there? Does it want to produce to export, an approach that could provide a valuable source of FX inflow in the event of a liquidity crisis? While these are not decisions for treasury, treasurers can play a valuable advisory role, pointing out issues that might not be front of mind for general business or supply chain colleagues.

The capital structure of subsidiary companies is also a consideration. Businesses should evaluate how much capital they want to have in a subsidiary or how much debt financing. Considering whether to fund using local facilities or intercompany loans is also helpful, bearing in mind that, in a lot of difficult countries, you might not be able to hedge if you finance with intercompany loans.

Doing the basics brilliantly remains important, Reimers said, such as adhering to dividend policies. "Even if it is a small distribution, make sure you do it. A year later you might not be able to, due to local regulatory change or because of a fall-off in foreign exchange availability. These measures won't help you avoid trapped cash in future, but may help you minimise it once a trapped cash situation arises."

Reimers advised ensuring your country entities settle liabilities regularly, whether that be trade, finance, payments to third parties or intercompany liabilities. "Maintain short supplier payment terms, so that, in difficult countries, entities have to settle early and cash doesn't pile up."

Additionally, in difficult countries, it typically pays to partner with a range of banks, since they may have different access to FX resources, depending on their customer bases.

Communication is hugely important in territories where a trapped cash situation seems likely to emerge. "Talk regularly to a range of banks in the countries to see if you get consistent views. We also try to talk to peers to gauge their experience. Always be transparent with stakeholders and flag any risk of cash piling up – and especially P&L risk."

> "Reimers related one occasion when a bank suggested buying livestock"

IN THE EVENT...

It can be difficult to foresee the kinds of situations that might lead to trapped cash. It might be a liquidity crunch, a regulatory change or a foreign power issuing sanctions. Once cash becomes trapped, however, it becomes important to safeguard assets. Review with which counterparty you want to hold your cash and decide whether safety or yield is more relevant.

Look at whether you hold hard or local currency. This decision can have implications for your P&L, but bear in mind that local currency can also be helpful from a business continuity perspective, said Reimers. "Quite often, difficult countries will have restrictions around holding hard currency, so it might only be possible to hold it for a period or until you have invoices that are due."

It can also be helpful to review other investment opportunities beyond cash and deposits. Conversations on alternative asset classes such as gold and real estate are relevant, where the value might not decrease as much as cash. Reimers related one occasion when a bank suggested buying livestock. "The point is to think outside the box and consider less conventional options," she said.

Beyond that, keep up with liabilities and payments, and make sure you source FX when there is availability, allowing you to buy materials and keep the business going.

Once again, communication is imperative: "Keep talking to the operation, your banks and peers. Be transparent around the business about the risks that pertain to that country."

BARCLAYS

OPEN FOR MORE BUSINESS

Open banking heralds new opportunities for corporates – improved visibility and liquidity among them

In the era of open banking, banks will open up their infrastructure to allow corporates to share their banking data with registered third-party providers in a standardised manner. This will enable corporates to take advantage of innovative new services that are coming to market. All of this will happen in a secure and safe environment, based on clients' explicit consent.

In essence, open banking is about making life easier for users of financial services, including corporates. Traditionally, it has been onerous for corporates, especially smaller ones, to access and share the data held by their banks. While this can be done via SWIFT, it does not suit all businesses, as the requirements for implementing SWIFT connectivity can be prohibitive for smaller corporates.

Here's a quick guide to some of the key concepts involved in open banking.

CUSTOMER CONSENT

Corporates must provide explicit consent to share their data. This consent usually lasts for 90 days and can be extended or revoked at any time. Consent is required every time a payment is initiated.

WHAT'S DRIVING OPEN BANKING?

There are three main drivers of open banking: customer demands and behaviour, regulatory change and new entrants to the financial sector.

Customer demands and behaviour

Corporates' expectations have evolved. They now expect services to be tailored to their specific needs, which means that established banks have had to rethink how they serve existing clients and target new ones. This has created opportunities for new entrants to the market to provide banking services in a modular fashion.

Regulatory change

There are two pieces of regulation in Europe designed to implement and support open banking: the second Payment Services Directive (PSD2), which was introduced by the European Commission, and the CMA Order, which was introduced by the Competition and Markets Authority (CMA).

- PSD2 came into force on 13 January 2018. It aims to increase competition and reflect changes in the electronic payments market. Specifically, in terms of open banking, it will: allow new entrants to the market to act as payment initiation service providers (PISPs) and/or account information service providers (AISPs). PSD2 obligates banks to provide open access to clients' account data and payment initiation services to third parties. Third parties can be either banks or non-banks that facilitate payment submission by offering alternative online payment solutions. They can also offer 'account information services', by providing consolidated information services for bank accounts held at different banks.
- In 2016, the CMA published a report on the retail banking market in the UK that found there was insufficient competition, with new entrants finding it difficult to break into the market. The CMA issued several orders designed to make the banking sector more open and competitive. To make open banking a success, all entities need to be able to communicate and exchange data in a standardised and secure manner. To facilitate this, the CMA mandated the implementation of industry-standard application programming interfaces (APIs) for connectivity.

New entrants

As previously mentioned, open banking has provided opportunities for new entrants to the market to provide services traditionally provided by banks.

With new entrants coming into the market, there is a danger of banks becoming utility functions if they do not manage to respond to the opportunities presented by open banking.

The new entrants are generally, but not exclusively, innovative fintechs focused on providing specific banking services, such as international payments, in a highly customer-centric manner.

WHAT DOES OPEN BANKING MEAN FOR CORPORATES?

Open banking can provide corporates with benefits such as improved treasury management. This includes real-time access to their account information, even when they are multi-banked, and new ways of initiating payments. There are also opportunities for corporates to provide new services to their customers by becoming AISPs or PISPs. They will be able to target their customers by accessing their data and using it to understand their behaviours.

IMPROVED TREASURY MANAGEMENT

Open banking can help make treasury management easier for corporates, as they will be able to access their balance and transaction information in real time. While this information has always been available, it will now become easier for them to obtain it and integrate it directly into their back-office systems. Real-time account information will enable

corporates to make more informed decisions and manage their liquidity more efficiently.

NEW BUSINESS MODELS: AISP AND PISP

Solution providers will be able to register as either an AISP or a PISP. Becoming an AISP will enable them to access their client's data (when the client gives their consent) and understand their behaviours. They will then be able to provide them with tailored processes and services.

Becoming a PISP will enable corporates to provide transactional services to their customers, potentially allowing for alternative methods for collecting receipts.

THE ACRONYMS…

As with any innovation, open banking comes with its own set of acronyms.

AISP

An AISP is a registered third party that, with a corporate's consent, can provide access via API connectivity to its accounts, as well as information such as balances and transactions. AISPs do this by pulling the information from the corporate's bank and presenting it via their own user interface or service.

PISP

A PISP is a regulated third party that will be able to initiate payments on behalf of a corporate, once they have consent. This is achieved by the corporate providing consent and authenticating themselves via their bank's online banking service or banking app.

CBPII

A card-based payment instrument issuer (CBPII) is a payment service provider that issues card-based payment instruments that can be used to initiate payments from a payment account.

TPP

A third-party provider (TPP) covers the above entities. All TPPs must be registered and regulated by their national competent authority. A TPP could be a traditional bank, a new challenger bank, a new entrant or fintech service provider, a credit-scoring company, an ERP provider or even a comparison website that is looking to match a bank's services with customer needs, based on the customer's data.

ASPSP

An account servicing payment service provider (ASPSP) holds accounts for corporates and has access to payment clearing schemes.

API

In simple terms, an API is a secure way of communicating with AISPs and PISPs. In the world of open banking, this means that banks have to publish standardised APIs, which are then used to send payment instructions and share account information following customer consent.

STRONG CUSTOMER AUTHENTICATION

In conjunction with open banking, 'strong customer authentication' is mandated by PSD2 to ensure that there is trust in the solutions provided. As a concept, strong customer authentication aims to meet the needs of corporates without lowering security standards. It ensures that banks have adequate security protocols in place to authenticate customers when using their online platforms and services. The requirement is to implement at least two of the following factors (two-factor authentication):

- knowledge (something only the user knows) – for example, a password;
- possession (something only the user possesses) – for example, a smart card; or
- inherence (something the user 'is') – for example, a fingerprint.

BARCLAYS' SOLUTION

Barclays is building a range of APIs that will enable corporates to share their data in a safe and secure way, as well as providing the ability to initiate payments.

WHAT IS HAPPENING NEXT?

The roadmap for PSD2 is nearing its conclusion. The next enhancement will be the implementation of open banking through the Regulatory Technical Standards (RTS) on strong customer authentication and secure communication. Open banking APIs will be available from Q1 this year for a period of industry-wide testing, in preparation for the formal go-live date of 14 September 2019.

The will also be further CMA releases in 2019, with CMA release four due in September.

Barclays sees open banking as a real opportunity to enhance corporates' experience.

BARCLAYS

MANAGING IN UNCERTAIN TIMES

The UK's relationship with its closest trading partner is going through a major shift, but the global stage presents a wealth of opportunity...

In an entertaining and insightful presentation, Karl Trumper (pictured), head of trade and working capital UK at Barclays, charted the UK's progress towards Brexit and discussed the wider context of global trade.

EUROPE

Trumper suggested that an extension to article 50 was a possibility as a means of avoiding a no-deal or cliff-edge exit from the EU. The next stage, assuming agreement on withdrawal arrangements is then reached, would be a transition phase scheduled to end (at the time of writing) in December 2020.

The transition phase, however, brings the prospect of fresh discussions. Negotiators must next settle the shape and nature of the UK's future trading relationship with the EU – no easy task given the complexities and protracted nature of negotiations so far.

Many corporates and smaller companies have adopted a 'wait and see' policy on Brexit so far. Trumper suggested the time for taking that stance has come to an end, and he urged businesses to begin to strategise by addressing four key areas:

- their dependency on the EU in terms of customers, supply chains, subsidies and turnover;
- their tolerance to potential increased costs, market-sector changes and potential exchange rate volatility;
- opportunities in other markets globally; and
- competitive opportunities in terms of taking market share from companies that may retreat from the EU market.

Modelling scenarios along these lines will enable businesses to formulate a forward strategy. But, however front of mind Brexit may be, British businesses' future relationship with the EU should not be the only item on their agenda. By fixing their gaze too closely on that issue, businesses risk missing opportunities elsewhere.

Looking at the global situation, huge shifts are taking place within and between the world's two biggest economies, the US and China. The economic and philosophical differences between those two trading giants are considerable and may result in formidable changes to global trade.

THE US

US economic performance indicators remain strong, with GDP growth at a 14-year high and unemployment hitting a 17-year low. However, President Trump has held to his campaign promises, ushering in a challenge to global free trade through protectionism. In January 2018, Trump imposed tariffs on 4% of US imports and implemented two successive rounds of tariffs specifically aimed at China: $50bn in June last year and $200bn in September. "When the world's biggest economy advocates protectionism, other trading economies must take note and ask how that may affect their businesses," said Trumper.

CHINA

President Xi, meanwhile, is charting a course of globalisation, with a trillion-dollar investment that links China with the West via ancient trade routes, through its Belt and Road Initiative. Seventy countries are partnering with China on the strategy.

The policy differences could hardly be more stark. "You have China going down the route of globalisation, while Trump focuses on protectionism. That's a clash of ideologies coupled with a clash of economics, which has an impact on all of your businesses potentially," said Trumper. "What might the impact be if that continues? It may take the form of reduced foreign investment, less cheap labour, and more or different regulation."

There are, however, opportunities in these shifts. "British businesses are great at trade and adept at building partnerships around the world. We need to lift our gaze and think about risk, certainly, but build strategies for our businesses, because there will be significant winners in this," he said.

"These are historic times. We are talking about risks because there are short-term issues happening now. By definition, most times are uncertain. However, we are about to define the way we trade with our major partners for decades to come."

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