FRONT OF MIND

With each year, the list of developments, issues and problems that corporates must juggle seems to get longer. Without doubt, the day-to-day concerns and strategic challenges loom large for the treasury function. As 2017 draws closer, we asked a group of respected treasurers about their preoccupations – threats and opportunities. This is what they told us…

The treasurer's reputation for being able to handle all that commercial life can throw at them is a solid and well-founded one. A calm and measured approach to risk, an ability to analyse, assess and digest variables, and a willingness to commit to and convey considered opinion to stakeholders at all levels – these are qualities that set treasury professionals apart, ones that are carefully cultivated within the ACT's competency framework.

It's just as well. As 2016 draws to a close, it would be hard to conclude anything less than the fact that market, currency and geopolitical volatility is greater than before, that events of note come along with less and less breathing space in between. The trends we may once have expected to eventually work themselves out or somehow right themselves – ultra-low interest rates, currency swings and surges – persist. The left-field outcomes we might anticipate seeing only now and then in a lifetime – outsider wins in elections – come along with increasing frequency. For all that we can see that our new reality is very different, very much more uncertain, very much more subject to frequent change, one thing we can see for sure: we are far from off the hook when it comes to the business world's need for answers – or in the absence of answers – credible, workable assessments.

As Brexit and the election of Donald Trump as US president have shown us, the advent of radical populism has become a significant change agent. Politicians, the election-winning kind, are not all alike. And with German and French general elections looming, it seems unlikely that 2017 will prove less exciting on that front than 2016. It's not beyond imagination that, with each successive election shock, markets and currencies will start to move less significantly, however, as geopolitical risk gets priced into markets more realistically.

It's not just the economic and geopolitical context that is busying treasurers, however. Developments in technology bring their challenges, too. Innovations can be a frustration just as readily as they can solve problems, since they bring with them implementation and financing issues. However, given the will and the budget, this is an area where treasurers can hope to improve efficiency, manage liquidity better and enhance cross-border operations to the benefit of their organisations.

And, of course, within this apparent sea of problems and challenges, there is great opportunity, not least the chance to demonstrate the capabilities and qualities that treasurers have: the more complex and unpredictable the commercial outlook, the greater the possibilities for an enhanced profile for the treasury function.

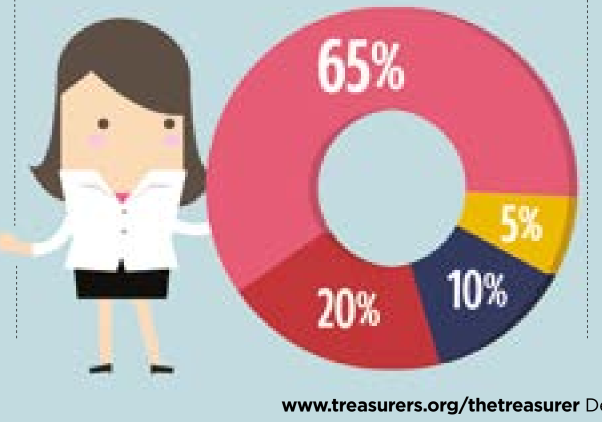
Here's what our panel of treasurers had to say about the year ahead.

THREATS

TECHNOLOGY – BANKS LAGGING THEIR CLIENTS

Engineering and design firm Atkins continues to develop its international reach and the ability to establish itself efficiently and effectively to support clients, wherever they may be, will be critical to the long-term success of the group. We need our banking partners to match our agility and our global strategy. Interaction of regulatory pressures, declining bank margins and bank spend on technology feels like a growing challenge from a bank's perspective, putting them several steps behind our own pace.

With increasing regulatory demands and costs, some of our banking partners appear to be distracted with retrenchment from non-core markets and internal restructurings. KYC checks are becoming more onerous and time-consuming, resulting in an increase in the time it takes now to establish basic banking operations in new territories. In addition, bank technology and practices remain fragmented and variable in terms of quality and consistency.



If anything, the increase in volatility means we need to be more dynamic

It concerns me that our international banking partners are becoming less global and increasingly distracted with inefficient and archaic operating models.

In order to keep pace with growing international businesses, whether in more or less developed markets, it would be great to see banks operate truly global business models with global standards and global technology that can at least match the aspirations of their clients.

Lesley Flowerdew
Group tax & treasury director, Atkins

CURRENCY VOLATILITY

Currency markets have continued to grab the headlines, with fundamentals giving way to political headlines this year. Assumptions and correlations that used to hold no longer do, and markets are less liquid and efficient than before.

British American Tobacco (BAT) has a well-defined and stable hedging programme that seeks to reduce volatility of results, delivering more consistent returns to shareholders. The currency surprises over the past few years have proven the importance of sticking with a consistent approach and not being swayed by short-term market 'noise'. This doesn't mean there isn't scope to be opportunistic.

If anything, the increase in volatility means we need to be more dynamic – from execution timing to unconventional hedging. We have also worked hard over the past five years to improve visibility and understanding of the group's exposures. This hasn't been an easy feat given the geographic coverage of BAT, but I think we are finally there.

Neil Wadey
Group treasurer, British American Tobacco

NEGATIVE INTEREST RATES

Euro interest rates will most likely continue to be negative in 2017 and might fall even further. As it is against our nature to accept paying money for lending it to another party, we will continue to try to avoid this, as long as it is done in a low-risk manner.

However, I believe that the real risk of negative interest rates has not yet been realised. Risk is clearly mispriced in today's markets, which leads to bubbles. This is especially a challenge in long-term asset management for pension assets. One of our main challenges will be to anticipate where and when bubbles might burst and how this will affect us in treasury and our banks (counterparty risk). However, we should also think about the effects on our company as a whole and the markets we are in. There is still time to adjust our risk profile.

Rando Bruns
Head of group treasury, Merck

ECONOMIC UNCERTAINTY AND GEOPOLITICAL RISK

As a non-executive director, I am expecting strategic challenges in 2017 due to political and economic change. In 2016, the Brexit referendum caused sterling depreciation, which had divergent effects on equity valuations. Market volatility is likely to continue while different political outcomes are debated. There will be winners and losers. Changes in tariffs may increase costs, but may open up new business opportunities, for example, cheaper raw material imports from outside the EU.

We may see strong debate and controversy according to different businesses' interests. Anxiety about change will affect people and families, and may cause employees to adjust career plans. More than ever, businesses need to keep an open mind to risks and opportunities, considering not just the obvious risks from increased costs and changing regulation, but the implications of new types of

I believe that the real risk of negative interest rates has not yet been realised

competition. It will be important to engage with trade associations and bodies with political influence, to ensure all factors and interests are properly considered in the political debate.

Charlotte Morgan
Non-executive director, and advisory council member on the Financial Services Negotiation Forum (representing the ACT)

OPPORTUNITIES

THE INCREASING IMPORTANCE OF THE TREASURY FUNCTION IN THE CURRENT CLIMATE

For consumer products company PZ Cussons, in 2017, the challenging economic environment in Nigeria will continue to be a major focus. Over the past 18 months, the country has had to deal with a severe bout of US dollar illiquidity caused by a double whammy of global oil price decline alongside internal strife, which meant the country was unable to match its historic crude oil production levels.

As US dollar liquidity dried up, the Central Bank of Nigeria undertook a raft of measures, including devaluing the currency and introducing forwards both US dollar-settled and non-deliverable. Treasury's expanded role was driven by being at the forefront of understanding what would or wouldn't work under these new market conditions. The year ahead will see treasury continue to enlarge upon the supply of advice and practical solutions to aid the business's commercial decision-making.

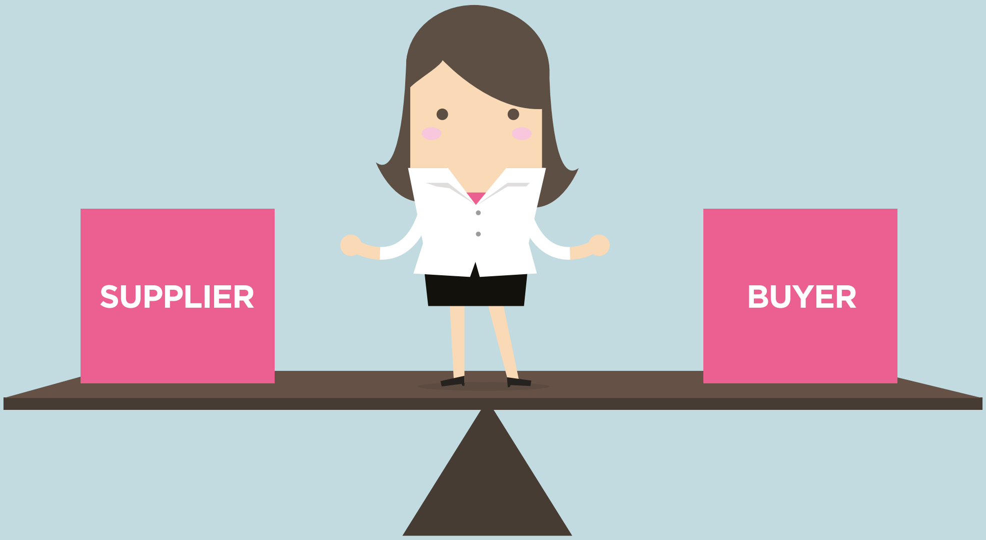
The illiquidity's impact upon working capital was the catalyst to undertake discussions early in 2016 with our European-based, long-term suppliers to Nigeria to try to extend payment terms. It was empowering to have visited the port with supply chain, local markets with the sales team and taken tours of factory operations. This first-hand knowledge helped when negotiating upon and successfully extending payment terms. Consequently, engaging with both my colleagues and the local banks next year on a face-to face basis shall continue.

Scot Morton
Group treasurer, PZ Cussons

INCREASING OPPORTUNITY IN SUPPLY CHAIN FINANCING

Current trends in global trade and supply chains are focused on changing trading patterns, volatile commodity prices, risk mitigation and access to liquidity. In volatile markets larger companies can become concerned about risk in their supply chains, but may also themselves have good access to liquidity and market information, while smaller companies will often have limited liquidity, and have to carry the cost of the supply chain, with the traditional sources of supplier funding being both expensive and inefficient.

Coupled with this, buyers and suppliers have naturally opposing objectives – one wishes to get paid as soon as possible, while the other will always seek to maximise trading terms. Supply chain financing (SCF) can help bridge that gap by having a



Upgrading or changing systems is expensive, both in terms of the costs and man hours required

bank advance the supplier with cash at competitive rates, while allowing buyers to deepen a supply relationship and optimise terms. Factoring, securitisation and receivables financing can offer similar benefits, but it will generally be the case that SCF will provide 100% advances and help achieve optimal commercial conditions for both the supplier and buyer.

More recent fintech-led innovations like dynamic discounting have gained traction as they become increasingly used, and offer even more flexibility, while presenting a challenge, and exciting opportunity for what has been traditional bank territory.

Simon Neville
Group treasury director, Reckitt Benckiser

VIRTUAL ACCOUNTS

Virtual accounts (VAs) have traditionally been utilised to enhance straight-through reconciliation rates in markets across Asia and Eastern Europe due to truncation of information through local clearing.

However, they have now become a key enabler to support 'the last mile' in the centralisation of the treasury function globally, as corporates seek maximum control over liquidity, risk positions and transaction flows. Virtual accounts help facilitate the optimal corporate owned, business only (COBO) model, and deliver benefits such as bank account rationalisation, simplified account/liquidity structures, reduced fees, enhanced visibility and increased standardisation and automation of processes. From an order to cash perspective – whether operating COBO structure or not – VAs enhance the cash application process through automatic customer matching. In addition, with the potential impact to notional pooling resulting from Basel III, VAs offer a viable and flexible alternative.

BAT has effectively deployed VAs across Europe and Asia-Pacific as part of COBO rollout and will look to continue the deployment in further regions in 2017 as a more consistent global solution begins to emerge from the bank group. Currently, there is a big divergence in product offering, with only two or three credible providers of robust VA tools, with the rest in varying stages of development and maturity. It is likely that 2017 will see a more level playing field as more banks begin to launch their VAs' proposition.

Neil Wadey
Group treasurer, British American Tobacco

TECHNOLOGY – TAKE THE LEAP TO AUTOMATE

Treasury departments are not known for being big spenders. One area where this is painfully evident is treasury technology, where many corporates still get by with outdated systems, heavy reliance on manual processes and Excel spreadsheets.

Unsurprisingly so, as upgrading or changing systems is an expensive affair, both in terms of the costs and man hours required for successful planning and implementation.

However, the growing prominence of the fintech industry and adoption of new technologies all the way down to the customer payments interface – combined with the greater complexity of risks faced by businesses – are driving an increasingly compelling case for making that investment.

It is no longer just about attaining cost-efficiencies through automation, but also enabling the treasury function to more effectively manage liquidity and risks, and offer more insightful advice for strategic decision-making through improved analytics.

The key challenge is just how to quantify those benefits in pounds and pence.

Johanna Hytinnen
Head of funding and operations – treasury, Tesco

WITH THANKS TO ALL OUR PARTICIPANTS