ACT

LEADING TREASURY PROFESSIONALS

SMART CASH CONFERENCE REPORT

AN UPDATE ON CASH MANAGEMENT

SPRING 2017

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Focus on debate

Smart Cash, the ACT's annual cash management conference, brought together a raft of high-calibre presenters and offered opportunities to discuss new solutions to familiar challenges

Presenters shared with more than 160 delegates their best practice approach to treasury structures, such as cross-currency notional pooling and in-house banking. The conference programme also covered supply chain issues, shifts in the regulatory environment and cybercrime, plus an interactive session on deploying the technology we already have, as well as newer approaches coming on stream.

Delegates proved keenly interested in messages on cybercrime and security, and we heard fascinating debate around the role of corporate treasury in relation to cybersecurity. Responsibility for cybersecurity may lie primarily with IT functions, but the message at Smart Cash was clear: treasurers need to ensure they stay on the front foot, keeping themselves informed about the current guises these risks take.

A key feature of this conference every year is the quality of its audience and presentations, with practitioners talking to practitioners. This year, we sought to enhance that feature by including more interactivity within the conference programme. In a 'Cash-athon' session,

audience members worked in small groups to sketch out their challenges and suggest the solutions – operational and technological – they could envisage working for them.

An imperative that came up repeatedly was the need to build structures capable of addressing those operational pain points that treasurers labour under, with cash-flow forecasting a case in point. Technology will undoubtedly play a huge part in improving the interaction between different parts of the business and treasury, and between the business and its banks, enhancing the cash flow of large corporates, increasing cash visibility and making efficient flows more achievable.

For me, what came out of those discussions was the importance of clear standards and greater transparency, and visibility in cash-flow management. There is work to be done, for sure – across corporates and their service providers, including banks – to enhance communication with the aim of improving the movement and visibility of cash around the business. Capitalising on the relationships we have and furthering the debates begun at Smart Cash will doubtless provide a great platform to take that ambition forward. ◆

Richard Martin is managing director, head of payments & cash management, Barclays

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ACT LEADING TREASURY PROFESSIONALS

WISHFUL BANKING

In a wide-ranging panel discussion, seasoned treasurers discussed flexibility, standardisation and the future for banking relations

PARTICIPANTS

James Kelly, group treasurer, Pearson
Claire Castelli, group treasury manager, Halfords
Daniela Sibille, former group treasurer, PageGroup
Catherine Porter, EMEA treasury director, CBRE
Peter Matza, speakers' chair, ACT

Treasurers often find themselves between a rock and a hard place, with business objectives pitted against the practicalities of regulation and rapidly changing banking relationships and economic conditions. So, how do their operational aspirations fare against that backdrop?

With the current vogue for flexibility in management and business, and with the ACT, for instance, invoking ideas around the adaptable and agile treasury professional, speakers' chair Peter Matza of the ACT first asked the panel what flexibility meant for them.

Catherine Porter, EMEA treasury director for property group CBRE, said that for her, flexibility lies in achieving a better fit between treasury and the business – a treasury function that reflects the strategy and forward motion of the business it serves. To achieve that, it is incumbent on treasurers to go out and sell themselves and the treasury discipline. "The days have gone where we were in an ivory tower and not well understood by our colleagues," she said.

Of course, treasury has to do more than simply survive harsh conditions. It has to meet the expectations of its organisation. That means looking to enhance existing controls in cash management, said Claire Castelli, group treasury manager at Halfords. Improving efficiency in the back office, looking to introduce more straight-through processing, looking at the fintechs that are coming to the fore and seeing how they might help deliver bank-agnostic solutions are other items on her agenda. "I think it's all about making the business understand what corporate treasury does and ensuring we flag issues they need to be aware of," she said.

In terms of the professional qualities and skills that a treasurer brings to bear in their workplace, there is often a balance to be struck between the desire to be flexible and the requirement to introduce or perpetuate core treasury disciplines. James Kelly, group treasurer at Pearson, is someone who has moved between industries a number of times. "I think it's important to be flexible in both directions and to think about what the business needs at the time, as well as what you can bring to the business. It's very much about developing a partnership," he said.

The panel agreed, however, that there are certainly occasions where too much flexibility may be a bad thing. "Sometimes the treasurer's role is stewardship – to be the guardian of the financial health and wealth of the organisation," Matza pointed out. "That does mean sometimes saying to the organisation you can't do it the way you've done it because it's not secure."

Operational wish list

Turning to the operating environment, Matza asked whether treasurers required more standardised products and processes from banks or financial service providers to meet the complex business needs they face.

Speakers' chair Peter Matza takes questions from the audience at the 2017 Smart Cash Conference

"I think each bank will tell you that they've got their own standard processes, but that they differ from the processes of other banks – and that's the challenge we face," said Castelli. "It is not necessarily who has the best service, but whose is going to be easiest to deploy."

Responding to a question from the audience as to whether or not it was short-termist to implement the easiest rather than the best solution, Porter argued that treasurers often need to be pragmatic.

"Banks tend to have sweet spots. So you need to be cognisant that if you're using a particular product or platform, or if you have a particular way of working that might work particularly well for one bank – it's easier to work with them rather than someone else who might purport to have something new that perhaps is not quite ready to go to the market. You have to weigh up the arguments."

The area that perhaps generates the most difficulty for treasurers in terms of its lack of standardisation is KYC. Daniela Sibille, former group treasurer of PageGroup, pointed out that the onboarding processes with counterparties in relation to KYC can be daunting for the treasurer, with processes often not clearly defined upfront. This is a particular pain point for multinational companies that need to carry out KYC procedures in multiple countries.

"There is also a lack of standardisation between countries. You end up having to go through the same process a number of times, a massive process to manage," she said.

Daniela Sibille, formerly of PageGroup, discussed KYC

The panel agreed there are occasions where too much flexibility may be a bad thing

While cross-industry or technological solutions would undoubtedly improve KYC onboarding, for many treasury issues there is a point at which they have to acknowledge that the world operates in different ways in different places. "You can relatively simply come up with a tiering system for certain tasks," said Kelly. "So, for most of the European countries, Hong Kong, Singapore, Australia and the US, we can broadly have a similar process. We can transfer cash reasonably liquidly; for instance, we can look to have a shared service centre model. "There are parts of the world where you might have exchange controls, regulatory controls. But, generally speaking, you can have slightly amended processes. They don't have to be completely different, but you need to recognise that you may need to do part of the process in a different way. So there's no reason why you can't add, for example, reasonably standardised collections processes if your limiting factor is transferring money in and out of the country," he added.

When it comes to banking relationships and leveraging technology advances and business advances, the panel agreed that it is a good exercise to keep your banking relationships fresh. "It is always good to go out and speak to other banks," said Sibille. "Your bank might be taking you for granted if you've banked with them for a long time, not offering you the most up-to-date solutions. The market is changing quite rapidly on the payment technology front," she said. ◆

SMART CASH SPEAKERS

Naresh Aggarwal
senior manager, PwC

Neil Ambikar
CEO and co-founder, B2B Pay

Stephen Baseby
associate policy and technical director, ACT

Claire Castelli
group treasury manager, Halfords Group

Nicolas Christiaen
managing director, Cashforce

Dave Clemente
head of cyber risk research, Deloitte

Royston Da Costa
assistant group treasurer, Wolseley Group Services

Nicholas Dunbar
founder and editor, Risky Finance

Will Green
design director, Barclays

Bert Heirbaut
treasury manager, InterContinental Hotels Group

James Kelly
group treasurer, Pearson

David Marsh
managing director and co-founder, Official Monetary and Financial Institutions Forum

Richard Martin
managing director, head of payments & cash management, Barclays

Peter Matza
speakers' chair, ACT

Kush Patel
CEO and co-founder, Tallysticks

Kevin Pinnegar
group treasurer, Honda Motor Europe

Chris Poll
chairman and founder, SME Capital Finance

Catherine Porter
EMEA treasury director, CBRE

Michelle Price
associate policy and technical director, ACT

James Richardson
head of pre-sales, Bottomline Technologies

Neale Saunders
regional director – cash management, Barclays

Robert Scriven
group treasurer and planning manager, Cairn Energy

Daniela Sibille
former group treasurer, PageGroup

Karen Toh
treasurer, Grosvenor Group

Ian Tyler
managing director, Alvarez & Marsal

Adam Watts
senior project manager, Dentsu Aegis Network

Jonathan Williams
director of strategic development, MK2 Consulting

Bill Wrest
director of business development and strategy, B2 Group

THE NEVER ENDING STORY

The regulatory change agenda in Europe and further afield has been seemingly unrelenting in the years since the global financial crisis.

And while it could be argued that banks and corporates are entering into a review period, there is still considerable focus on the fallout from 2007-08, and on the practical implications of the regulatory moves formulated in its aftermath.

In a session exploring regulation, a panel of experts discussed the measures that we have seen to date, together with possible market events that might yet test their effectiveness.

Consultation and review periods bring with them an opportunity to explain why certain regulatory measures may not be beneficial to non-financial corporates. The EU's Prospectus Directive is a case in point, said Stephen Baseby, associate policy and technical director at the ACT.

BREXIT

While a reduction in red tape was a popular theme of debate prior to the Brexit referendum vote, many of the regulatory measures already in play – PSD2, CRD IV, IFRS – will still impact on UK-based treasurers once Brexit has been completed, Baseby explained. "Partly due to the timetable, but partly because of the way we are approaching Brexit, anything that comes out of Brussels will be rebadged as UK regulation, so we will have EMIR-UK and PDS2-UK. Essentially, the law remains the same."

LIQUIDITY TSUNAMI

If regulatory frameworks are becoming more resolved, economic conditions globally remain less predictable.

Nicholas Dunbar, founder and editor of Risky Finance, gave his analysis of the vast sums held by non-financial S&P500 companies in cash and investment balances. The sums involved are high:

$2.4 trillion, substantially ex-US, in cash and long-term bonds. Apple, for example, owns $120bn in long-term bonds, twice the equivalent European Central Bank holdings.

In all, Apple holds $246bn in cash and investment balances. And while shareholders are undoubtedly interested in the prospect of future dividends, the money remains in cash and investment assets outside the US. "The problem is that the US has a very high withholding tax rate. With this money held offshore [corporates] can't repatriate it very easily," said Dunbar. "The Trump administration and Congress are talking about reforming US taxes, introducing a very low withholding tax with an important tweak in that they want to reward exporters and penalise importers. If the withholding tax is reduced, this cash will flood back across the Atlantic."

There are implications here for corporate treasurers and for exchange rates in the event of a significant policy change in the US – and this is a strong likelihood in Dunbar's view. "There is a lot of political motivation to do this," he said.

The short- to medium-term result would be a stronger dollar, a substantial fall in liquidity in European asset markets, but also a price impact on bonds.

BANKS

The picture grows more complicated still when you consider how certain regulatory measures interact with the current monetary policy. Ian Tyler, managing director at Alvarez & Marsal Financial Industry Advisory Services, cited the introduction of the leverage ratio within Basel III requirements in combination with quantitative easing (QE) and the low interest rate environment.

For instance, the introduction of the leverage ratio weighs against devices such as notional pooling. From a regulatory and accounting standpoint, banks cannot offset accounts; they have to be fully reflected on the balance sheet and with capital held against them. "So something that was essentially free or very cheap for the bank to provide is now quite expensive," Tyler said.

Liquidity rules within Basel III have undoubtedly diminished banks' appetite to hold short-term deposits, argued Tyler. "When you combine that with QE, which has put a lot more liquidity into the system, and with very low or negative interest rates, and also the impact of the leverage ratio, the banks are suddenly saying 'I don't want your deposits'."

Tyler is also concerned about the impact of ring-fencing, which banks must comply with by 2019. "This is a UK solution that adds significant cost. We will see if that plays out in differentiated credit ratings in the future."

His biggest concern, however, is IFRS 9. "This is going to have a big impact on the banks, particularly when you combine this with the discipline of stress testing. If you mark-to-market for credit a leveraged institution like a bank, that's a pretty dramatic event. Just that accounting change could have a real impact on banks' appetites to lend to the real economy. We could end up going back to the bank balance sheets that we had in the 1970s, full of short-term assets."

Reform and regulation is undoubtedly narrowing options for banks and therefore adversely impacting their corporate customers. "I think the regulators have been so badly caught out by banks that reported very low positions and then went bust the next day. The accountants have been very badly burned, too. There is a lot of political will going into avoiding having to put public money into banks again. I see IFRS 9 as part of that trend," said Dunbar.

> The key point is that while we might see some benefits in economic conditions, the issue for corporates is that bank capacity is going to go down

RATES, PENSION FUNDS AND CAPACITY

Where does all this leave the real economy? The key point to remember, said Baseby, is that while we might see some benefits in economic conditions and monetary policy, the issue for corporates is that bank capacity is going to go down.

"What we're looking at is both short- and long-term rates will rise, which could be triggered by a movement of capital to the US. For those carrying pension funds on the balance sheet, that means deficits will go down, just as a matter of calculation. The flight of capital to the US might trigger that. Overall, that would mean we enter into a cycle that looks a bit more normal," he said.

Where the day-to-day issues for corporates start to bite is in that reduced appetite on the part of banks to take deposits and lend. "You'll find fewer banks wanting to deal with smaller amounts of money, a looming problem with Brexit, where we don't really understand the degree to which the continental banks will be able to remain part of the banking picture in the UK. That is a concern expressed by our members as they renew facilities," he said.

POTENTIAL DEREGULATION IN THE US

While Brexit seems unlikely to lighten the regulatory load for UK-based corporates in the short term, the Trump administration's inclination to deregulate banking and business generally might alter the picture substantially, the panel argued.

If the US begins to unravel Dodd-Frank, its post-financial crisis banking regulation, we could potentially see deregulated US banks operating in the UK on a slimmer capital base, in a position to undercut financial institutions here, Dunbar argued.

Reducing or diluting regulation may not be a bad thing from a real economy perspective, the panel said. However, the UK and the EU are currently poorly placed to respond. In its public policy role, the ACT has struggled to persuade legislators in Brussels that creating an ideal regulatory framework, one that pays scant attention to where that puts Europe competitively in relation to Hong Kong, Singapore or the US, for instance, is unhelpful in practical terms.

"It's not a matter of saying what should the regulation be ideally, it's a matter of saying what should it be relative to elsewhere in the world," said Baseby. "If you start to get this drift, and I think Brexit will trigger it, you will start to get people asking: where is my business and, therefore, where should I be? That point will come when people will have to make those decisions." ◆

PARTICIPANTS

Stephen Baseby, associate policy and technical director, ACT
Nicholas Dunbar, founder and editor, Risky Finance
Ian Tyler, managing director, Alvarez & Marsal Financial Industry Advisory Services

The automation quest

Establishing clear connections between ERPs and a group-wide TMS has been key to streamlining payments at Dentsu Aegis

Global media and communications group Dentsu Aegis embarked on its payment automation initiative with a view to establishing a fully integrated framework – one capable of growing with the business.

Senior project manager Adam Watts set out the initial objectives as:

- straight-through processing of SWIFT payments via one payment channel;
- a secure connection between the business's enterprise resource planning (ERP) systems and its Bellin treasury management system (TMS);
- single sign-on; and
- a flow of bank statements information for reconciliation purposes.

In reality, achieving that meant untangling multiple, legacy payment systems, tackling the challenge of setting up with several banks and other service providers and getting buy-in around the business. "The challenge for us was we had a big global network with businesses all around the world, all with different payment systems. Taking those and creating one global infrastructure has been a significant undertaking," said Watts.

Dentsu Aegis's existing payment mechanics involved a great many moving parts. At the beginning of the process, the business was working with 20 relationship banks globally. The business has also seen rapid growth over the past decade, so being able to scale the payments infrastructure, while also optimising controls, was an important consideration. The organisation also wanted to free up cash that gets held up in the payment process and reduce support costs.

Incorporating SWIFT so as to take advantage of MT940 reporting was a key stage of the set-up process. The company ERPs now automatically store standard statement information from the banks on a daily basis, and the use of SWIFT greatly helps reduce friction in the data flows, Watts said. "The data flow from our ERPs is straight through and onto the banks, eliminating those touchpoints; the information is in those [MT940] files rather than in spreadsheets," he said.

Turning to CGI – SWIFT's common global implementation initiative – Watts explained that Dentsu Aegis has adopted ISO 20022, which has afforded some key benefits. "What it means is we are looking to streamline the way we connect with banks and communicate, and we've been able to leverage a couple of benefits. One is a faster implementation, as we can use the same template for each of the banks and that avoids the cost of developing bank-specific XMLs. If everyone is using that same language, we can communicate technically as well as verbally, and when we're operating globally we are able to break through those language barriers using a standardised structure."

KEY BENEFITS OF AUTOMATION

- Fraud reduction
- Scalability
- Improving efficiency
- Optimising working capital
- One auditable system
- Better data security
- Better data visualisation
- The ability to track payments

CGI challenges

While the CGI initiative should in theory speed operations up, there is still some variability between the banks in terms of what they provide from a CGI standpoint, Watts explained, and there can be considerable variation from one region to the next. "Not all banks are CGI compatible. Generally, the large banks are, but there are some banks, particularly in Asia, with some variability, so we've been working with them to bring those banks with us on this journey," he said.

CGI file presentation can also vary in terms of reconciliation data flowed back to the business. "The way banks group files can vary from one bank to another, although this is improving all the time."

Payment status reporting, however, gives the company improving visibility overall. "We're able to see where payments are in each stage of the process, so we can see receipts at the bank and assess any rejected payments. We also get information on whether the files are rejected at a local level with the bank, and we're working with banks to improve the information coming back." ◆

Trust and credibility

Grosvenor treasurer Karen Toh and team have brought about a treasury transformation and created a centre of excellence at the property group

When Karen Toh took the helm as head of treasury at Grosvenor in 2014, the case for treasury transformation had been building for some time. Previously, treasury expertise was dispersed across group operating companies – the property group has 18 offices worldwide and eight operating companies each with its own CFO. However, the board had recognised an opportunity to develop the function to take into account growth and increased complexity across the business.

Toh outlined three other key reasons why the time was right for a fundamental look at Grosvenor's approach to treasury. "Financial institutional relationships were increasingly global. I had a strong view that we needed to be more joined up in relation to global risk and exposures and, although relationship management and other treasury functions were being handled well, the TMS was out of date," she said.

With treasury skills increasingly recognised at group level and a centre of expertise seen to be required, Toh set about building a new structure and team.

"In implementing this change, we very much had to take into account how the overall organisation was structured," she explained, "while adhering to some generally accepted principles at the organisation. So, international cash pooling was not necessarily for us. However, intercompany borrowing and lending might be."

Grosvenor's background

The Grosvenor estate is privately held and trustee-managed with a strong sense of stewardship. Its core objectives are to generate attractive long-term returns and manage an internationally diverse portfolio. It is active across the world's most dynamic cities across Asia-Pacific, the Americas and Europe, Toh pointed out. Reputation is very important; the group prides itself on its sense of social responsibility and integrity. "It wants to provide high-quality places for people to enjoy and to create a distinct sense of place," said Toh.

For the financial year 2015, Grosvenor's assets under management were £136bn, with £530m in profits before tax, very low gearing and significant undrawn debt facilities across the group.

The treasury team, now 12-strong, develops treasury policy for the group, coordinates expenditure globally and signs off on all debt as well as taking responsibility for derivatives, such as FX and interest rate hedging. But Toh's role includes an important balancing act between support and advisory work for the operating companies and the need to challenge colleagues at times. "The business partner and policing roles are not mutually exclusive and there can be conflicts of interest between operating companies and the holding company. The trustee factor, where there is a personal liability, also very much needs to be taken into account."

Implementing the TMS

Toh wanted to establish a new treasury management system (TMS) as a single source of 'truth' in terms of treasury data and as a catalyst for improved data integrity across the business. "An important workstream was around establishing that greater data integrity, faster timelines and greater efficiency."

Implementing the Grosvenor TMS represented significant upfront investment, a detailed needs assessment, system design work and a considerable communication exercise to increase group-wide understanding of treasury's role. To do that, treasury itself had to be promoted across the business and square up to the challenge of establishing trust and credibility. For each locality, Grosvenor established a working group spearheaded by Toh, a senior IT representative and an operating company CFO.

"The implementation is on time, on scope and just within budget"

With phases one and two of the rollout complete, the viability of the new treasury infrastructure has been established and the overall objectives and project parameters met. "The implementation is on time, on scope and just within budget," said Toh. "Group-wide, there is much greater understanding of treasury functions and greater transparency. The TMS incorporates daily SWIFT reporting, real-time market data feeds, an online dealing platform and a deal confirmation system." And while some of Grosvenor's operating companies may not have been familiar with this kind of treasury functionality, the TMS and treasury transformation project have proved core to internal and external relationship management.

"There were bumps along the way," Toh conceded. "Adaptability and persistence were important, as was managing expectations." ◆

Better SAFE than SORRY

PSD2 brings the prospect of open banking and increased access to customer data. So the security enhancements it also stipulates are a necessity

In a session tackling regulation affecting payment systems, Jonathan Williams, principal consultant with Mk2 Consulting and a member of the Payment Strategy Forum's Financial Crime, Data and Security Working Group, homed in on PSD2.

PSD2, the EU's Second Payment Services Directive, is set to make a significant impact on consumer payments, business payments and on the banking industry at large, Williams explained.

In an audience poll, Smart Cash delegates showed a good level of awareness of the directive's imminent arrival on the payment scene, but most audience members conceded to a relatively low level of understanding in terms of its details and likely impact on their businesses.

Although the original EU text for PSD2 was issued in November 2015, we don't yet have the regulatory and technical standards needed to comply with the directive, Williams explained. But with effective dates in January 2018 and January 2019, and with the UK government confirming in February that it would implement the directive in the interests of continuity across the international payments industry, the time to get to grips with the legislation is now, he stressed.

Aimed at opening up the European payments industry, the policymakers behind PSD2 also aim to reduce fraudulent payments through stronger authentication methods. According to Financial Fraud Action UK, fraud losses from remote banking increased in 2015 by 72% on the previous year and their combined value reached £169m. When you include the value of attempted frauds, the figure climbs to closer to £1bn, which represents an upward trend in frauds and attempted fraud in the online environment. The reason treasurers should be concerned, Williams told the audience, is that these figures cover a much wider range of methods than we have seen in the past and confirm that corporates are now firmly in the sights of hackers and cybercriminals. "These [frauds] included CEO or director scams and invoice frauds – some initiated by members of staff like yours in good faith, and in some cases involving very large sums of money," he said.

> "These [frauds] included CEO or director scams and invoice frauds"

Sophisticated social engineering is a hallmark of cyber fraud today, and assaults on business typically feature: "very capable and believable emails, aimed at persuading you to send vast sums in the fraudsters' direction. So that is a significant problem."

STRONGER AUTHENTICATION

One of the key drivers behind PSD2 then is to try and improve the stability and security of payment systems and to impose a common set of standards across them. In that respect, it is, Williams argued, one of the most significant pieces of regulation in the fight against crime of the past 20 years. As well as that emphasis on security, it extends the scope of existing EU-wide regulation to cover non-EU currencies and transactions that come into or leave the EU – so-called 'one leg out' transactions.

PSD2 and the CMA's Open Banking Initiative

The UK government has confirmed it will implement PSD2 even though it is moving forward with plans to exit the EU

The UK Treasury has said in a consultation paper on PSD2 that it will "finalise and lay the final implementing legislation before parliament in early 2017 to provide industry with as much time as possible to adjust to any changes required."

The UK regulations will set out PSD2 rules for banks and other payment services providers, including, for the first time, third-party businesses such as payment initiation service providers (PISPs) and account information service providers (AISPs). This move will align the UK rules with the aspirations within PSD2 to encourage new players into the payment market, mandating banks to "open up the bank account" to AISPs and PISPs.

The consultation paper points out that PSD2 rules on accessing accounts through AISPs and PISPs sit alongside the UK's open banking initiative, driven by the Open Banking Working Group as part of the Competition and Markets Authority (CMA) remedy for current account competition. "One of the real opportunities within PSD2 is open banking," said Williams. "In the UK, it won't matter who you bank with, you can access your banking through a different service, the same sort of service offered to treasurers – providers who offer a better understanding of where money is going and a better understanding of how to initiate payments. All of that could be provided to consumers via APIs [application programme interfaces]."

A great deal of analysis of PSD2 to date has focused on its impact on consumers, Williams pointed out. However, in fact, PSD2 makes no distinction between consumer payers and business payers. "All the implications around how consumers will authenticate themselves when they make a payment apply to you as treasurers as well as to your colleagues running AR and AP systems," he said.

One of the key challenges that treasurers, banks and third-party payment providers will need to grapple with in relation to PSD2 is that dual emphasis: driving forward enhanced authentication given the widening access to bank account information the directive aims at. It seems likely that treasurers will see a great deal more activity from the banks in respect of access security, including increased take-up of biometrics. "Those measures will increase especially if your bank is in the EU. You will need to have an increased level of authentication and it may well be those will be voice and face biometrics."

OTHER REGULATION

There are a number of other initiatives and regulations that relate to the payment space in play.

The Anti-Money Laundering Directive (AMLD) IV and V, for instance, will have implications on how businesses store information on their counterparties. Businesses will need to think about that issue ahead of the implementation date of AMLD IV (which may very soon become AMLD V) in June this year, particularly in terms of providing good information on counterparties, including addresses and means of tracing transactions.

The EU Transfer of Funds Regulations, known as Wire Transfer Regulations in the UK, are already having an impact in terms of increased requests from banks for more and better-quality information around payments. "I have seen banks asking for more information as part of the implementation of the Wire Transfer Regulations and they are looking for particularly well-formed addresses. So, if you are using ISO 20022, for example, to generate payments in SEPA, that is relatively straightforward. The same thing for Bacs is more difficult," said Williams.

He also noted changes to the Payment Card Industry Data Security Standard and implementation of the EU General Data Protection Regulations (GDPR) as additional features of the payment landscape. The GDPR brings obligations around reporting data losses in the event of a breach. So if a third party gains access to customer information, businesses will have to report that breach in a timely manner.

With innovation and enhanced open access comes risk. With PSD2 a certainty for the UK (see box on page 10), it will be incumbent on treasurers to keep appraised of trends in this respect. "One of the key things to be aware of is that there will be increased social engineering," said Williams. "So try and protect yourself and your staff. The Payment Strategy Forum working group is looking at a new payment framework with better identity, KYC and transactional analysis, which should lead to better protections for business." ◆

> "There will be increased social engineering. So try and protect yourself and your staff"

PSD2 – key aims

- To make the European payments market more integrated and efficient;
- To reduce fraudulent payment activity via more advanced authentication procedures for electronic transfers;
- To enhance competition; and
- To lower prices for end users.

TABLE TALK

Delegates discussed their most pressing cash liquidity, visibility and forecasting issues in an interactive session, addressing pain points and suggesting solutions

With a view to encouraging audience participation at Smart Cash, Barclays convened a 'Cash-athon' on day two.

Working in small groups, delegates chose the cash management issue most appropriate to them as a group from a list of statements provided by Barclays. Having taken time to work through the issues, the groups discussed how an array of enablers – from fintech to real-time payments to cloud solutions – might help them address their operational challenges, reduce friction and smooth cash flow.

Having chosen the issue that most resonated with them as a group, participants worked through their challenges before summarising the situation and its potential remedies in the final session of the conference.

PAYMENTS IN AND OUT

The issue: managing payments domestically and internationally both in and out should be simple, although moving payment data from one place to another, choosing the appropriate channels, is too difficult.

Combine this with challenges around reconciliation, where receiving the correct referencing is inconsistent; is there a way to reduce risk?

PAIN POINTS

A spokesperson from the first group to feed back said her group identified issues with both payments going out and statement data coming in. "Most of the pain points around payments were around the variations in messaging type or in the data that's required, cut-off times that banks may have, the different types of payment that you can send and the costs associated with those," she said.

In terms of statement data coming in, challenges included missing information, reconciliation difficulties and differences in value dating. The group also noted pre-advice as a stumbling block, as well as variances across payment systems coming in. Also at issue was the use of correspondent banks, in terms of how these affected process flow and value dating for all payments and receipts.

Payment security and, in particular, the difficulty corporates face when it comes to confirming whether beneficiaries have received payments or not, was also touched on.

SOLUTIONS

The solutions suggested by this group were broad and included this wish list of technological responses:

- **Middle-ware:** to cover the different information required on payment files and on receipts coming back in;
- **Artificial intelligence (AI):** to assist in the choice of payment type so that treasurers don't have to specify the type required before sending a payment;
- **PSD2:** to cover difficulties resolving which payment fields are required and to assist with reconciliation. Virtual accounts could also help here;
- **Real-time payments:** to help manage challenges around value-dating;
- **SWIFT gpi:** as a means of confirming that beneficiaries have received payment; and
- **Biometrics:** to further support payment security.

A second group that identified this issue as their most significant challenge added multiple banking platforms and Faster Payment execution via cash pools as its pain points. They also mentioned pricing, the cost of transacting, bank-valuation efficiency, straight-through reconciliation, variance on MT940 formatting, and disaster recovery and contingency planning.

The solutions they identified included the need for good communication on forthcoming changes around MT940 reporting, a bank-agnostic solution for multiple-banking platforms, cloud technologies and the use of application programming interfaces.

They also suggested netting across the group to negate the requirement for cross-border traffic, payment optimisation, as well as AI around banking platforms to assist with determining optimal payment paths.

Issues around tracing payments, bank responses to SWIFT enquiries and bank valuations could be addressed by the internet of things, the group argued. There may additionally be distributed ledger approaches to streamlining those processes.

MANAGING LIQUIDITY AND FORECASTING

The issue: managing liquidity throughout the day with numerous bank accounts across the globe is taking too long with too many systems to enable cash forecasting effectively. What solutions can be combined to improve accuracy and save time?

PAIN POINTS

Two groups identified managing liquidity and forecasting as the process they saw as most ripe for overhaul. A spokesperson summarised their concerns: "If you're global you may have many banks, time zones and regional treasury centres, so the issue becomes managing access to the data, managing currencies and timelines, and obtaining accurate forecasts from non-treasury colleagues."

While SWIFT has traction in Europe and has also been rolled out in the US, it is not yet a truly global system, so issues remain with daily liquidity, with daytime exposures and credit limits, the groups felt.

SOLUTIONS

One group's solution had at its foundation a group-wide treasury management system (TMS) common to all parts of the business with, where possible, MT940s feeding into the TMS for prior-day balances and, in turn, opening-day positions. The TMS should, they argued, integrate with an enterprise resource planning (ERP) system to capture payments, receipts and all cash movements daily, monthly and annually.

> Multiple bank accounts leading to bank account and intraday reconciliation issues was an aspect that participants came back to

The TMS would include all banks, by currency (so a TMS rather than an ERP, since not all ERPs are multi-currency).

This group wanted to provide access to departments outside of treasury, so that collating data was not solely the responsibility of treasury. They also argued that other departments should have buy-in into liquidity and that linking the TMS to accounts payable and accounts receivable departments, along with shared service centres and regional finance teams, would bring about greater accuracy and reduce manual input.

Mobile access would reduce headcount requirements as well as improving work-life balance – and a cloud-based system would allow the CFO to access information remotely, facilitating cash-flow analysis and ready comparisons of historic data versus forecasts.

"For forecasting, we wanted an electronic trail of cash flows [with] all historic and future cash flows to enhance visibility on liquidity and cash forecasting, ideally on a TMS or linked in through a module on the ERP," one said.

Neale Saunders, regional director – cash management, at Barclays, noted that remote access via mobile technology had proved topical. "We're seeing this very much in the retail digital journey. There is a lot more activity via mobiles and tablets. There's no reason why treasuries in the future shouldn't allow that. I suspect it's coming, although we're looking at some pretty big systems and security implications to get the data out securely," he said.

A second group identified bank account management as a key concern. "We've seen situations where subsidiaries in some countries have opened bank accounts without treasury, which leads to bank account structure issues. It also leads to KYC issues in terms of bank mandate updates, when it comes to knowing who has authority to use those accounts," a spokesperson said.

Multiple bank accounts leading to bank account and intraday reconciliation issues was an aspect that participants came back to. A high volume of daily transactions across so many fronts, sometimes requiring manual interventions, does little to help with bank relationship management. Additionally, being affected by different currencies in different time zones adversely affects predictability of cash flows.

In this case the group suggested eBAM, set up in such a way to manage mandates and accounts more effectively, could provide some of the answers, while real-time payments would take away some of the uncertainty around reconciliation.

PSD2 AND OPEN BANKING

The issue: All payments are made through traditional methods. Is there a more efficient way of making payments that uses PSD2 or open banking?

PAIN POINTS

To little surprise, another group identified checking and verifying data within payment processes as time-consuming and heavily reliant on manual processes. The issue of multiple banks, numerous accounts, payment tracking and verification and security came up here once again.

SOLUTIONS

This group advocated standardisation globally and pondered whether PSD2 has the potential to bring that. A solution that combined AI with global standards and real-time management of payments would address these issues and would have the potential to secure organisations against rogue and fraudulent payment requests.

SUMMARY

Given free rein to discuss operational pain points and a shopping list of technological solutions, delegates were able to suggest new answers to familiar challenges. As Richard Martin, managing director, head of payments & cash management at Barclays, said in his closing remarks, how we deploy new technology – particularly enhanced connectivity and, in due course, AI – will go a long way to helping treasurers home in on solutions. ◆

BARCLAYS

ON HIGH

As the sophistication and persistence of cybercriminals increases, so must our awareness and defences

When it comes to cyberattacks, it is very clear that ingenuity and persistence on the part of fraudsters are on the increase. The poorly written email appeals for funds from a few years ago have given way to far more sophisticated and tailored CEO and CFO email scams, or 'whaling' attacks. Cybercriminals have at their disposal terabytes of personal data via social media networks and can readily and convincingly impersonate corporate officers.

Ransomware is a significant threat, capable of hitting corporate reputations as well as coffers, as are distributed denial of service attacks, which temporarily paralyse systems by bombarding them with traffic from myriad internet-enabled devices.

As a panel discussion at Smart Cash highlighted, cybercrime today is organised and businesslike – almost an alternative corporate sector, with comparable resources and reach. The more successful hackers become, the greater their willingness to target corporates. "Our eyes have been opened up to the different routes into organisations," said James Richardson, head of pre-sales and cyber fraud consulting EMEA, at Bottomline Technologies.

MARSHALLING DEFENCES

Given the near inevitability of attempts to defraud or despoil, it has now become imperative to ensure the systems and processes treasurers use are as resilient as possible. Identifying weak points and vulnerabilities is crucial, as is keeping in mind the potential cost of a serious breach. As panel member Royston Da Costa, assistant group treasurer at Wolseley, suggested: "Identify what 'bad' would look like if you were attacked. You should put a value to that scenario as well as making sure that you've taken the right steps to protect high-risk data."

Insurance against cyberattacks has become increasingly available and viable. However, to secure it, corporates need to make sure that payment systems or cloud-based treasury management systems come with appropriate levels of external standardisation. Protocols such as Statements on Standards for Attestation Engagements (SSAEs) provide a generally accepted level of assurance.

However, insurers and corporates may well want to go further. "What we look for is an independent audit," said Da Costa. "Typically, vendors will provide that, but we always insist on having an external audit report. And those two elements together are generally sufficient to give assurance that the system is well controlled and well audited."

> "Identify what 'bad' would look like if you were attacked... Make sure you've taken the right steps to protect high-risk data"

While standards and external audits are valuable, it is important that organisations also set their own expectations, Richardson pointed out. "We welcome raising the bar with improved standards. That helps everybody and it provides a good benchmark externally. But there's always a need to look beyond that. Have existing standards worked for the organisation? What else is required above and beyond that?"

ENCRYPTION

Looking at specific functions within treasury, the message from both corporates and banks is the pressing need to make payments systems and cash in transit more resilient to cyberattack. With the trend towards more immediate payments (Faster Payments in the UK, for instance), the pressure is on to reinforce this core function within treasury, Richardson stated.

To add more controls, vendors and corporates are looking at the value that monitoring transactional traffic can bring. Group treasurer and planning manager at Cairn Energy, Robert Scriven, said that Cairn,

SECURITY MEASURE RECOMMENDATIONS

- Robust systems that are regularly and independently audited.
- Cyber insurance.
- Mock cyberattacks that reinforce how the treasury function will respond in the event of a breach.
- Segregated roles and strong processes around payment protocols.
- Regular briefings for staff members on current risks and trends, particularly around social engineering.

ALERT

which is in the midst of installing a new payment system, is looking at possibilities around encrypting payment data internally. "A lot of people rely on payment files being dropped into secure folders, but they're never really secure, because someone always has access to them," he said. Encrypting data as it is produced and before it passes through the Simple Mail Transfer Protocol gateway makes it more tamper-proof. "We are using our security consultants to look at that and we may consider encrypting the traffic also," Scriven said.

As additional safeguards, Cairn plans to use a fraud-detection module to flag unusual activity, as well as make gateways stronger. "All traffic to our payment system will be via secure ePN [eProcessing Network] before it goes onto the secure SWIFT network," Scriven said. Cairn's treasury also maintains a central beneficiary list. "Every payment we've received from our source systems has to match that list, or has to be looked at. So that gives us an additional last line of control. No matter what source internally it's going through, it has to pass through that gate and we will maintain that gate in treasury."

PARTICIPANTS

Royston Da Costa, assistant group treasurer, Wolseley Group Services
Richard Martin, managing director, head of payments & cash management, Barclays
James Richardson, head of pre-sales and cyber fraud consulting EMEA, Bottomline Technologies
Robert Scriven, group treasurer and planning manager, Cairn Energy

Cairn's efforts to combine more secure connectivity with monitoring transactional traffic demonstrate that cybersecurity infrastructure is evolving. However, there is a balance to be struck between providing control and maintaining an efficient operation. "You have this drive to send immediate payments, but on the other side of the coin, we do want to flag these things up and hold possibly fraudulent payments while they are investigated. Providing capability to allow treasurers to do that is where we're going," said Richardson.

RESPONSIBILITY

With attacks and types of attack proliferating, what are treasury's responsibilities in relation to cybersecurity? While treasurers might once have been tempted to regard this area as the sole preserve of the IT function, that view is changing, not least because CEO email scams, where cybercriminals embezzle funds by impersonating a CEO in credible email requests for a one-off payment, are becoming

FINTECH AND EMERGING TECHNOLOGIES FOR CASH MANAGEMENT

Banks and their corporate customers represent a wide field of opportunity for emerging technology companies. However, in spite of the proliferation of fintech operators worldwide, the vast majority of businesses in this vibrant sector focuses on retail banking solutions. According to Neil Ambikar, CEO of B2B Pay, only 10% pursue innovations designed to enhance corporate banking functionality

That represents a missed opportunity, Ambikar pointed out, on day two of Smart Cash. "For fintechs, corporates are great clients – high-value customers offering longer contracts and the potential to generate revenue equivalent to thousands of retail customers. Corporates, in the meantime, are missing out on the innovation that these fintechs can offer," he said.

Happily, as the banking world seeks to make its infrastructure more homogenised and as take-up of new technologies increases, the outlook for innovators and corporates alike looks set to improve.

B2B Pay was one of three Barclays Accelerator businesses whose founders gave presentations to Smart Cash delegates on innovations relevant to corporates. As part of the Barclays programme, these businesses have gained technical, financial and business support from the bank and from Techstars, its partner accelerator business.

B2B Pay

Small suppliers routinely sacrifice around 20% of their profit margin in currency-conversion and international payment fees. B2B Pay provides suppliers with virtual bank accounts in the European countries where their large customers are based, ensuring they can collect payment using SEPA. Payment is then routed to the supplier's home country for a fee, typically 80% cheaper than the mainstream.

Cashforce

Cashforce managing director Nicolas Christiaen spoke about enhancing cash visibility within complex organisations. Cash-flow forecasting tends to be manual and time-consuming, and yet inaccurate forecasts impede functions ranging from FX risk management to future reinvestment. Christiaen gave an overview of Cashforce's functionality and its approach to in-depth customer payment analysis.

Tallysticks

Tallysticks is a platform that uses blockchain technology to automate invoicing and invoice finance processes. CEO Kush Patel argued that introducing distributed ledger technology into the invoicing process brings transparency and stability, a trusted framework that keeps each party accountable. Streamlining payments to suppliers would ensure that SMEs in particular are better supported commercially, he said.

more prevalent. Firewalls and other defences put in place by IT departments are essential, but human behaviour often represents a significant point of weakness.

"In terms of treasury and controls, it is very simply down to procedures," Da Costa said. "I am conscious that as secure as we make our systems, we can't legislate for human error. It's important that whatever company you work for you have the right level of process controls."

Smaller centralised treasuries may have less to worry about on this front. If the treasury department is in close proximity to both the CFO and the C-suite, requests for one-off payments that fall outside the norm can be readily verified. However, if treasury is decentralised, there may be fewer obstacles to erroneously acting on fraudulent requests. It is here that the social engineering cybercriminals deploy comes into play.

"We've seen examples where companies have publicised information about themselves and about key individuals in order to raise their profile. From that information, one set of fraudsters was able to impersonate a CEO, contacting the payments function to put them on standby that they may need to put funds into court in case a judgement in a legal case went against the company,"

Cyberattacks from outside the organisation have become high profile

Richard Martin, managing director, head of payments & cash management at Barclays, recalled. "From the banking side, we see many variations of this kind of fraud."

For a payment clerk, challenging a high-level request is no easy matter. Cybercriminals are adept at manipulation. They may flatter the recipient by suggesting that the matter is sensitive and requires confidentiality as well as quick action, for instance. Addressing that particular sleight of hand will require a behavioural and cultural shift, the panellists said. "We want things to change culturally so that people feel they can challenge any request, without adverse consequences. We're encouraging that behaviour change," said Richardson.

That effort is helped by increasing levels of awareness when it comes to looking out for fraud. However, there is more to be done. Reliable processes, including strong oversight and segregation of roles, will go a long way towards guarding against CEO scams and other social-engineering attempts to defraud. Da Costa also recommends staging mock attacks to establish how staff members should respond. Business-continuity and disaster-recovery plans should also be established, and the details regularly reviewed and communicated.

Cyberattacks from outside the organisation have become high profile – and treasurers, banks and providers will find the growing level of awareness encouraging. But in one last reminder that it pays to look at this issue in the round, Richardson reminded the audience that payment frauds can also be more mundane.

"If you look at all the types of fraud being committed, it commonly comes from within. You can get carried away with the sensational numbers of multimillion-dollar frauds, but it's the more run-of-the-mill frauds that are really high risk. We are trying to help organisations get a more balanced view of the potential fraudster," he said. ◆

Please also see www.treasurers.org/node/9799

Two-way benefits

IHG's cash-pooling structure has strong upsides for all parties in the group

With brands ranging from the five-star InterContinental luxury hotels through to Holiday Inns and the boutique hotel chain Kimpton, InterContinental Hotels (IHG) has a diversified portfolio. And as treasury manager Bert Heirbaut told delegates, those assets make IHG primarily a brand manager, with 75% of its receivables coming through franchise fees. This core feature provides the treasury function with a strong focus on cash management.

IHG's first forays into cash pooling began in 2007 in Europe, when Heirbaut conducted a request for proposal for a currency pool to handle euros and US dollars. Over time, the structure evolved into multi-currency pooling with around 75% of the entity's receivables flowing in via the structure.

Main features

Beginning in Europe and expanding into Asia, IHG operates a two-way overnight sweep. During the day, funds remain with its subsidiaries for working capital purposes. Against-the-sun funds are swept into London overnight from its Singapore operation.

The follow-the-sun sweep was added to the pooling structure later and was more challenging to establish, Heirbaut explained. IHG has around 2,500 hotels in the US and funds are swept into London from the New York office. "If any of those hotels pay a franchise fee during the day, we have it in London overnight; it's quite a powerful tool for us," he said. Income from Canada goes into the London pool via manual transfer for jurisdictional reasons.

Principles

IHG looks at pooling as a means of extracting idle cash from subsidiaries. With receivables hard to forecast and subsidiaries inclined to hold on to cash, sweeping cash overnight leaves operators with working capital during the day. It also streamlines cash management for the group, cutting down on myriad conversations with individual subsidiaries about their cash needs at a local level.

Only the treasury entities are allowed to go overdrawn on euro and US dollar accounts, and the gross overdraft is cleared monthly. An additional benefit is that pooling prevents cash balances from building up. Combined with the overdraft limit, that feature also provides a safeguard against cyber fraud attempts.

> Only the treasury entities are allowed to go overdrawn on euro and US dollar accounts

Benefits

Along with the working capital benefit to subsidiaries, IHG reaps investment benefits, reduces operating expenses and has experienced a reduction in cash held across the group from $200m globally to $50m (although not all of that is down to the pooling structure). "Notional pooling definitely gave us a lot more visibility and a lot more understanding," Heirbaut said.

The scheme has to be incentivised, so IHG pays interest to its subsidiaries. "You need to convince your subsidiaries that this is a great solution. They're signing up to a cross-guarantee scheme, so you need to provide them with some benefits. One of them is interest. And the internal interest allocation also addresses tax concerns around the arm's length element," he said. The pool also reduces operating expenses.

Concerns

There are drawbacks with pooling. Setting up can be complex, with tax considerations to be addressed and internal and external stakeholders to be persuaded. Additionally, pooling structures need continual review, particularly in the event of adding entities, such as new hotels. "Your requirements will change all the time," Heirbaut said.

And the regulatory climate is arguably diminishing the case for pooling. IFRS 9 is a case in point; it has made overdrafts more visible to senior management, and the counterparty risk has to be considered also. There are questions around the level of risk. "How comfortable are you with the exposure you have with the bank, that's really what it comes down to," he added.

Basel III and CRD IV will further complicate the picture, with banks' appetite for pooling likely to reduce. The key, Heirbaut said, is to talk directly to banks and understand their position. "The issue is: how does the bank respond to this? Every bank seems to be looking at this very differently." ◆

Currencies and contradictions

With policy direction in the US and the UK still far from clear and major elections ahead in Europe, assessing the geopolitical climate for 2017 is a contradictory business, says David Marsh

The past 12 months of political upheaval have sent shock waves around the political and finance worlds. Providing the keynote address at Smart Cash, David Marsh, managing director and co-founder of the Official Monetary and Financial Institutions Forum, gave his analysis on the political fallout and the implications for major currencies.

David Marsh of the Official Monetary and Financial Institutions Forum

US dollar

Looking firstly at the US, Marsh noted that the country's protectionist stance, evident in the promotion of companies that undertake to keep jobs onshore and criticism against the currency positions and economic policies of other countries, was unlikely to help its competitive position. A strong dollar would also work against president Trump's aspirations in terms of bringing jobs and prosperity back to the rust belt, for instance. Marsh said he saw the strong dollar persisting, but argued that we would also see a collapse in its value further ahead.

Euro

Turning to the euro, the world's second-biggest currency in terms of holdings and transactions, Marsh argued that the euro crisis had never really gone away and indeed had been kept alive by the actions of the European Central Bank (ECB), as it continued on its course of combining a low interest rate policy with a programme of quantitative easing (QE).

Continued political and economic upheaval in member states has forced central bankers' hands in this regard. "I predict the ECB will have to carry on with a slightly unorthodox strategy, certainly until the end of the year," he said.

Fears for the banking sector in Italy were what kept policymakers wedded to this policy, he said. "There is a lot of difficulty in the Italian banking sector and the low interest rates and QE are aimed at keeping that show on the road," he added.

Central banks remain in a difficult position, however, and the pressure is likely to increase when interest rates eventually start to rise. Marsh said at that point, price levels of the bonds these banks hold will fall, and some may find themselves in negative equity territory.

Yen

The situation for the yen is likewise highly politicised, Marsh said, with the Bank of Japan now close to the limit of what it can hold in terms of government bonds. The Japanese economy is close to its 2% inflation target, largely because of the QE undertaken by the bank, but above all because of the weakness of the currency.

Renminbi

China's currency represents an unusual case, Marsh pointed out, in that the Chinese government has made its aspirations on this front very clear. "It's the first time in history that a country has stated that it wants its currency to be a reserve currency. These things normally happen by stealth," he said. Weighing against that ambition, foreign currency reserves in China have fallen by a quarter over the past two and a half years. Nevertheless, the renminbi remains a currency to be reckoned with and will become increasingly important for treasurers, he said, with increased use in capital markets, transactions and commodity pricing.

Sterling

Marsh argued that the outlook for sterling is fairly stable, compared with other currencies, a fact that may provide corporate treasurers with a degree of reassurance. Amid the complexities of global economic headwinds, and in spite of the long time frame involved in exiting the EU, sterling is likely to remain a relatively safe bet, he stated, particularly given the devaluation that occurred in the wake of the referendum vote.

Unlike other European countries, the UK doesn't face an imminent change of government or prime minister, and the timing, if not the detail of Brexit is known, giving the UK a measure of stability that other countries don't have.

Political cross-currents within Europe will continue, Marsh said. The UK government's position that Britain will do better outside the EU is the only realistic stance it can take politically, but puts it at loggerheads with other European governments, who necessarily take the view that the UK's standing will be diminished by Brexit.

"I predict the ECB will have to carry on with a slightly unorthodox strategy"