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Middle East Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS MIDDLE EAST ◆ SUMMER 2017

"Be prepared to get out there. Networking is an important part of the job"

Mona Lockett, head of treasury at Webcor Group, on networking

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LEADING TREASURY PROFESSIONALS

Editor's letter

Whether it's focusing on liquidity management, dealing with commodity and particularly oil price volatility, or managing the mounting deal activity and business opportunities that the Middle East represents, treasurers in this part of the world face plenty of challenges.

Their commitment to excellence and to sharing experiences and know-how is exemplary, however, and the ACT, in turn, is committed to providing opportunities to help treasurers in the region increase knowledge and share expertise. Don't miss the upcoming webinar on 4 May on China-UAE trade in partnership with Arabia Monitor, and the ACT-Kyriba breakfast briefing on 23 May on win-win supply chain finance

In this issue, we talk to Mona Lockett, head of treasury at food and FMCG distribution company Webcor Group, about her career and the value that her AMCT qualification brings her. That Webcor, which has operations in challenging territories such as Angola and the Democratic Republic of the Congo, now has a streamlined centralised treasury operation with much enhanced cash visibility is largely down to her skill and persistence. Lockett's recent projects include a treasury management system installation (one of only a handful in Angola) and managing finances for industrial projects. She sets out the challenges and pays tribute to the role her treasury network plays when it comes to shared solutions to issues specific to the Middle East in our profile of her on page 4.

For more on career challenge, you might want to look at our feature on turnaround treasurers, on page 10. Gary Slawther, who advises corporates on treasury issues in pressurised situations, including business turnaround, offers an overview of the skills and qualities required to operate during a testing point in a business's life cycle. Along with three other experienced turnaround treasurers, he describes the importance of holding fast to treasury principles and ACT training so as to maintain the integrity of the organisation's cash management and its relationships with banks and lenders.

In addition, on page 20, we recognise the hard work and flair among the region's student population, who were commended at the Middle East Annual Summit last November.

Plenty of reasons to applaud and celebrate; enjoy the issue.

editor@treasurers.org
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CONTENTS

COVER STORY

Middle East Treasurer
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ACTME regional consultant
Diana Wilde
◆ +971 5 0473 8816
◆ dwilde@treasurers.org
◆ www.actmiddleeast.org

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◆ dan.gallagher@thinkpublishing.co.uk

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Managing editor Rica Dearman
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VITAL STATISTICS

3,400
the number of Webcor Group employees around the world

2,100+
the number of local employees in Africa

110
the number of points of sale in Africa

300+
the number of products imported and exclusively distributed in Angola

35
the number of years Webcor Group has been operating in Africa

"We're a very decentralised group, so a lot of my role is to centralise much of the treasury function"

SEEING IS BELIEVING

Centralising treasury and increasing cash visibility at food and FMCG group Webcor have been priorities for head of treasury Mona Lockett

Words: **Rebecca Brace** / Photos: **Mark Brown**

No challenge is too great for Mona Lockett, head of treasury at food distributor Webcor Group – from pioneering the use of treasury management systems (TMSs) in Angola to managing stock levels during an economic crisis.

Established in 1978 in Zaire – modern-day Democratic Republic of the Congo – Webcor Group began as a food company. By 1992, the company had become a leader in soft commodities and fast-moving consumer goods (FMCG) in Angola. Today, the company has a global presence in Europe, the Middle East, Latin America and Southeast Asia, as well as its core operations in Africa.

Ninety-five per cent of the company's revenues are generated in Angola, where the company imports commodities and FMCG, and sells them through its own distribution company. In total, Webcor Group distributes more than 300 consumer products across Angola, Mozambique and the Democratic Republic of the Congo using door-to-door and route-to-market methods.

Lockett is based in the company's recently established corporate headquarters in Dubai. "We're a very decentralised group, so a lot of my role is to centralise much of the treasury function," says Lockett. "This includes trying to manage the group debt and group cash from a central perspective in order to bring visibility to the group. I also work on the trade finance arm, and I get involved in project finance, because we have a lot of industrial projects in Angola."

Lockett's career path has incorporated a number of roles in treasury, although her focus was initially on accounting. After studying accounting and finance at university, she moved into a private practice. A period of travel followed, after which Lockett returned to the UK and took on a contract treasury role at EDF Energy, as the company prepared for the London 2012 Olympics bid. "It was interesting – I thoroughly enjoyed it," she says. "They needed somebody with a bit of accounting experience, which always seems to help when you're going into treasury."

Lockett established a limited company, MPL Treasury Consulting, in the UK in order to cherry-pick the treasury projects she wanted to work on as a consultant, which enabled her to gain considerable experience, before joining Webcor Group in 2014. Lockett attributes her rapid progression to her ACCA accounting qualification, as well as her AMCT. "These qualifications bring the foundation that will help you throughout your career," she comments. "It's all very well having the experience, but having the piece of paper adds weight and shows not only commitment, but trains you in the principles."

A member of the ACT, Lockett also notes the value of the networking opportunities and the ability to consult with industry peers. "A lot of times, we find in this region that everyone is in a

TOP TIPS FOR OTHER TREASURERS

1. **Be prepared to get out there. A treasurer's role involves a lot of communication at all levels – networking is an important part of the job. The treasury world is small, so building and maintaining relationships is key.**
2. **The AMCT qualification gave me the solid foundations on which I have built my career today. It's true that what you do in practice varies from what you learn at school. However, learning and understanding the principles of treasury through the programme has added immense value to what I do today.**
3. **Where gadgets are concerned, I am quite old school. While most people are attached to Apple's latest invention, I am still going strong with the 'almost-out-of-date version'.**
4. **Every day brings a challenge. No question is too tough – my role is to find the solution.**
5. **The best way to wind down after a stressful day is a good workout. However, living in Dubai has its benefits, and beaches are plentiful.**

similar situation," she explains. "When things go wrong, they tend to go wrong for everyone – so reaching out to your network to help find a solution has been very useful."

OVERCOMING THE OBSTACLES

Indeed, the company's geographical footprint has led to considerable challenges where treasury is concerned. When working with local banks, for example, Lockett says that it can take time to find the right person to speak to. She adds that treasurers may also find themselves having to educate their banks about what they need.

Even straightforward processes may take considerable time and perseverance. Lockett has experienced delays on opening bank accounts, for instance. "So there are parts of the role that can be frustrating and compliance now also plays a big part in these delays."

Undaunted by these challenges, Lockett has made considerable progress in the past couple of years in streamlining treasury processes and using technology to drive improvements. When Lockett joined Webcor Group, the organisation had no treasury system in place. As such, the treasury was dependent on spreadsheets provided by finance managers based in Angola, Beirut, Dubai and Geneva. "We were looking back two months, rather than looking ahead," observes Lockett.

All this is changing. Lockett has recently started implementing a new TMS in order to achieve greater visibility over the organisation's cash. With phase one complete, Lockett says the new system has begun to bring things to life. She adds, "It has also helped identify talent within the group and

"These qualifications bring the foundation that will help you throughout your career"

a few hidden treasures!" For example, the senior management and treasury is able to receive data on a daily basis, with visibility over the group's position both by company and by bank.

"We never thought we would have visibility from Angolan banks – but we now have more than 100 Angolan bank accounts spread across over 20 banks reporting onto the platform," says Lockett. "In fact, Deloitte informed us that we are in the less than 2% of companies in Angola that currently have a TMS working."

While the TMS has provided considerable benefits, managing cash and risk continues to be a sizeable challenge – particularly given the crucial role that Webcor Group plays in Angola as an importer of staple commodities, such as flour, rice and maize flour. "All our cash is in Angola, and all our debt is outside of Angola," says Lockett. "If we don't have financing from the bank, we won't be supplying food into Angola – and we are the market leader."

Over the past two years, with the country's economy in crisis as a result of falling oil prices, the company's dynamics have shifted drastically. As a result, treasury has been involved in matters such as managing the stock levels in line with transfer of currency in a controlled exchange market.

"Day to day we had zero visibility on how much cash we could transfer out of Angola to the sourcing companies in order to settle our bank financing," says Lockett. "The economy went through stages of offering purchase at auction, then came the priority on food, medicine and raw material. More recently, the focus is on food imported into the country. This was the biggest challenge across the whole group – not just for me, but also for everyone else, like the general managers based in remote provinces, who needed to know when the trucks would come to fill their warehouses. But we've come together as a team and we've seen this through."

LOOKING FORWARD

Despite facing significant challenges over the past couple of years, such as the devaluation of the Angolan kwanza, the company has recently completed a major strategic project in the country with the launch of a state-of-the-art flour mill. Where treasury projects are concerned, meanwhile, Webcor Group has recently obtained its own SWIFT code.

"My biggest challenge this year is getting the whole treasury centralised," comments Lockett. "We have one centralised hub in Angola that will take care of all central payments through SWIFT in Angola. We'll also continue getting SWIFT up and running, which means going back to the banks to renegotiate fees and explain that we have our own SWIFT gateway."

Lockett is also in the process of implementing a cash-pooling structure, in order to push cash up to the parent company and fund back down when needed. "During the crisis, we often found that there would be one company that had a bit of cash, but the other one was struggling, and we'd have to find a solution to pump the cash," she explains. "Rather than having to touch the shareholders, we intend to build a pocket at the holding level and fund back down. This would be the 'norm' in an established treasury – but driving governance is challenging when local businesses are used to holding on to their cash."

With so much accomplished over the past couple of years, Lockett is philosophical about the challenges that treasury brings – and the rewards that can be gained by overcoming them. "In the past, the part of the job that I least enjoyed was not having control over visibility," she concludes. "Now that we do have visibility, it's one of the parts of the job that I enjoy the most."

MONA'S CV

2014-present
Head of treasury, Webcor Group
2003-2014
Various consulting roles, MPL Treasury Consulting
2010-2012
Group treasury EMEA shared services, Kohler Co
2010
Treasury project manager, Enzen Global Solutions
2010
Head of cash management, EMAL
2009-2010
Treasury manager, Grosvenor
2006-2009
Treasury manager, Kuoni
2005-2006
Senior treasury analyst, GDF Suez
2003-2005
Treasury accountant, EDF Energy
1999-2003
Financial accountant, Silver Levene

QUALIFICATIONS

BA in Accounting and Finance, ACCA, AMCT

This article also appears in the May 2017 issue of *The Treasurer.*

Rebecca Brace is a freelance journalist specialising in corporate treasury and banking

China's growing North Africa footprint

THE RELATIONSHIP BETWEEN THE ECONOMIES OF NORTH AFRICA AND CHINA HAVE BEEN STRENGTHENING YEAR-ON-YEAR – A TREND THAT LOOKS SET TO CONTINUE. DR FLORENCE EID-OAKDEN EXPLAINS

Diplomatic relations between China and North Africa date back to the 1950s. Egypt became the first Arab and African country to establish diplomatic relations with China, in 1956. And as the first non-Arab country to recognise Algeria's independence in 1962, China occupies a special place in Algerian diplomacy.

Trade between China and North Africa amounted to around $4.4bn in 2004, but by 2014, it had grown by 20% annually on average to reach $28.7bn. North Africa's large population provides a consumer base for Chinese goods and technical expertise, and China's total exports to North Africa have been far greater than its imports from the region, resulting in a large trade surplus in China's favour (see figure 1, right)[1]. Some North African countries have become important destinations for Chinese foreign direct investment (FDI). The total FDI received by North Africa in 2014 was more than £840m, accounting for 30% of China's total FDI in the Arab world (see figure 2, right)[2]. North Africa is set to benefit from growing investment inflows from China as part of the One Belt, One Road strategy.

In the past decade, Sino-Egyptian trade has grown at an average annual rate of 22%, and this is expected to continue following the Suez Canal expansion. While FDI flow from China to Sudan rose from $146m in 2004 to $174m in 2014, FDI from China to Sudan as a proportion of total Chinese FDI to North Africa dropped from 88% in 2004 to 17% in 2014. The 2015 strategic framework signed with Tunisia to establish a free-trade zone will help China further leverage North Africa to strengthen EU economic ties.

China-Egypt: a model for south-south cooperation?

Egypt leads Sino-North African bilateral trade relations. Alongside vital political and cultural relations, Sino-Egypt economic relations hold great potential for development and benefits for both countries. Bilateral trade between Egypt and China (mainly non-oil) increased from $1.6bn in 2004 to $11.5bn in 2014 (see figure 2, below), at an average annual rate of 23.3%.

There is, however, a trade surplus in favour of China, highlighting potential opportunities for scaling up Egypt's exports to China (which include marble, granite, cotton, carpets, glass, fruits and condensed juices), which increased from $187m to $1.2bn during this period. China, meanwhile, exports textiles, metal products, electrical appliances, toys and school equipment, among others, to Egypt. Imports from China rose from $1.4bn in 2004 to $10.4bn in 2014.

While Chinese FDI to Egypt represents less than 1% of Egypt's total FDI stock, Chinese companies are becoming major beneficiaries of high-profile infrastructure projects in Egypt. China's accumulated investments in Egypt surpassed $500m during 2004-2014, growing by 12.2% per annum and accounting for more than 3,000 local jobs. Egypt received $162.8m worth of Chinese FDI in 2015, equivalent

Figure 1 China-North Africa imports and exports (USD, bn)[1]

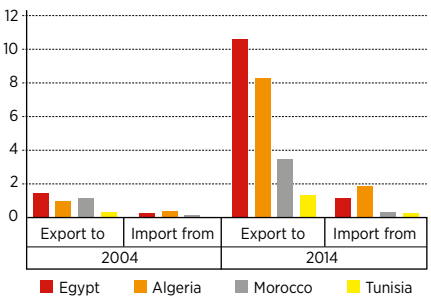
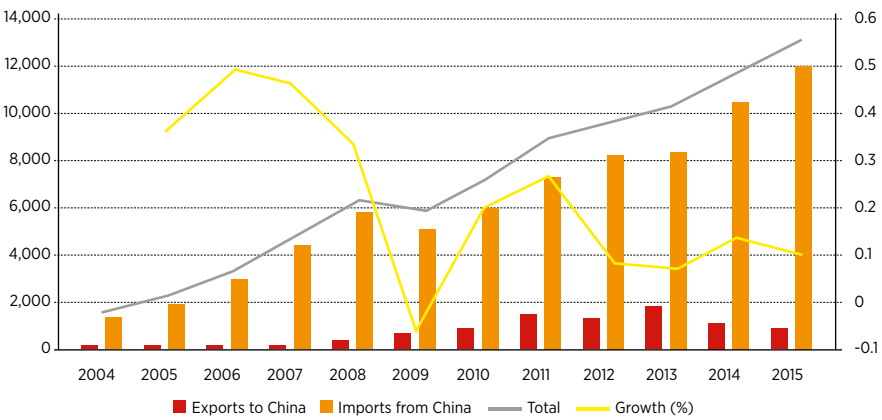


Figure 2 Sino-Egypt bilateral trade (USD, bn)[2]



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to 7% of China's total FDI to the Arab world ($2.3bn).

As China's economy and consumer spending slows, access to Egypt's population of 85 million may provide a new outlet for cheap consumer goods. China also benefits from cheaper Egyptian labour, as well as free entry to markets where Egypt has signed free-trade agreements, including Mercosur, the European Free Trade Association and Turkey.

Frequent high-level visits indicate that China values its new Comprehensive Strategic Cooperative Partnership with Egypt. President Sisi visited Beijing for the second time in September 2015 to attend the 70th anniversary of the World War II victory. Chinese president Xi Jinping visited Egypt during his January 2016 tour of the Middle East (Saudi Arabia and Iran included).

During Xi's visit, the Egyptian government signed deals worth $15bn with Chinese companies, including in energy, transportation and sanitation, aimed at boosting FDI from China to Egypt. One memorandum of understanding brought China State Construction Engineering Corporation into Egypt's new administrative capital project.

In February, the Central Bank of Egypt received $900m from the China Development Bank under a $1bn financing agreement signed during Xi's visit. This raised Egypt's dollar reserves to around $17.4bn. On 6 March, the National Bank of Egypt also received the $700m loan pledged during Xi's visit from the China Development Bank to finance infrastructure projects in different sectors.

China-Sudan: for better or worse?

The picture is a little more mixed when it comes to Chinese-Sudanese relations.

The year 2011 was something of a special case in trading relations between the two countries. In 2011, Chinese FDI to Sudan surpassed $900m, the highest among all Arab countries. President Omar al-Bashir's visit to China and the 10 investment contracts signed explain the sudden spike in FDI from China that year. Chinese companies were very active in exploiting gold mines in Sudan before the Sudanese government imposed an evacuation order in May 2015. There were 17 Chinese gold-mining companies based in Sudan, and their investments amounted to more than $100m. Chinese companies accounted for 98% of all foreign companies and 15% of the entire market share.

China and Sudan became strategic partners in September 2015. Sudan is eyeing natural gas exploration and production, creating opportunities for foreign investment in its extraction and export. Sudan has proven gas reserves of three trillion cubic feet, but development has been limited. It lacks pipelines and port terminals, and is seeking China's help to explore, produce and export natural gas. China will start gas production in Zone 15 in the Red Sea, as well as in the Baleela field in Zone 4, and in two other zones.

In February 2016, president al-Bashir announced the formation of a special committee for Chinese affairs tasked with developing Sudan's political, economic and military relations with China – a move that underscores growing cooperation between the two countries.

Awad al-Jaz has been appointed to head the committee at the rank of presidential assistant for Sudanese Chinese Affairs. Al-Jaz is one of al-Bashir's closest allies, having been oil minister for many years. He was also one of 10 Arab figures honoured by president Xi for developing relations between their countries and China.

The new committee aims to act as a direct liaison between China and Sudan, and help organise visits and meetings between both countries. This also means that anything with China would now be done through this committee. Al-Jaz has been reviewing a number of projects in the Khartoum State that require cooperation with China for funding and implementation.

China-Tunisia: a quiet partnership

While China's relationships with Egypt and with Sudan have shown positive growth trends, trade between China and Tunisia has yet to become as well established. Trade between the two nations reached $1.4bn in 2014, compared with only $28m a decade ago. China's FDI flow to Tunisia was not as significant – only $710,000 in 2014.

A strategic framework was signed in April 2015 between China and Tunisia to establish a free-trade zone in Tunisia. This could further facilitate China's interest in leveraging North Africa's location to strengthen its economic ties with the EU.

The diplomatic and economic groundwork established to date means that China is well placed to take advantage of North Africa's growing economies.

1 Arabia Monitor; IMF
2 Arabia Monitor; China National Bureau of Statistics

Dr Florence Eid-Oakden is CEO and chief economist at Arabia Monitor, a research and strategy advice firm that specialises in MENA

Bumps in the road

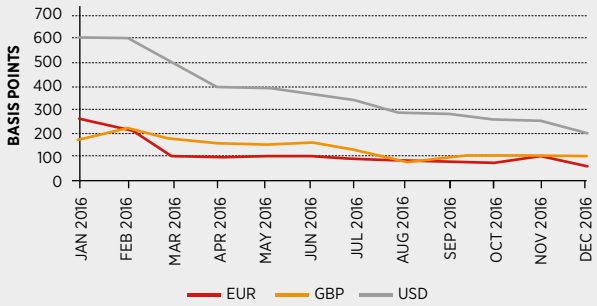
THE VOLATILITY WITNESSED IN THE POLITICAL DOMAIN AND IN GLOBAL MARKETS HAS FED THROUGH INTO BOND PERFORMANCE. JAMES WEST EXPLORES KEY TRENDS

With the vast array of political and economic activity throughout 2016, it certainly was difficult to keep up with the volatility in the corporate bond market. Brexit, presidential elections and monetary policies, to name but a few, contributed to what was a very eventful year. So, when there is such volatility and unrest, how do you keep an eye on the changing spreads and yields in the corporate bond market? Using S&P ratings and our corporate bond curve data, we have taken a look at 10-year BBB-rated corporates throughout 2016.

The main trends we saw were as follows:

- The energy sector saw the largest spread declines: for EUR -72%, USD -65%, GBP -42%.
- Average corporate bond spreads declined by 45.6% for EUR, 38.9% USD, 33.8% GBP.
- The average spread differential between EUR to USD tightened 32% from 155bp to 104bp.
- The average spread differential between GBP and USD tightened 49.5% from 107bp to 54bp.
- Overall, we saw considerable spread tightening across all sectors.

Figure 1: BBB energy sector spreads by currency 2016



Source: S&P Global Market Intelligence Data as of 10 February 2017

Looking at figure 1 above, we can see how the energy sector performed throughout 2016. When we consider that 2015 was extremely negative with regards to this sector, and that energy spreads were at levels last seen during the financial crisis, a correction was always a possibility. The crash in oil prices to its low of $26 a barrel in February caused a sell-off in the energy sector that caused the market to become nervous that perhaps even those companies with excellent credit health might be at risk of defaulting. Spreads for US dollar energy bonds were over 600bp at the beginning of 2016 and, if we look at BB spreads, they were up at 970bp in February 2016. However, the stability provided by the oil-price recovery, helped by a positive

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reaction to the Organization of the Petroleum Exporting Countries' production cuts announced in November and an increased investor appetite to look for yield, the sector was the best performing of 2016.

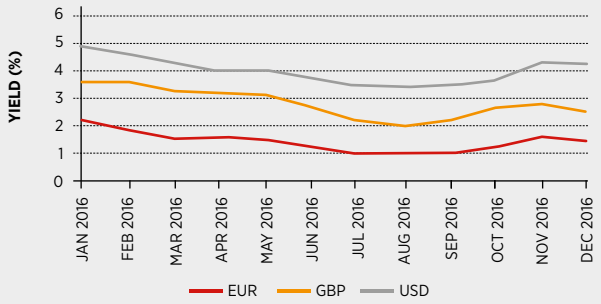
All sectors in USD, GBP and EUR saw dramatic decreases in spreads throughout 2016; however, there are some nuances. As noted, the energy sector saw the largest spread declines: EUR -72%, USD -65%, GBP -42%. The healthcare sector showed the least amount of decline, but still saw significant decreases in spreads of -24.1% in USD, -26.1% in GBP and -18.2% in EUR.

One of the main drivers for spread decreases during 2016 was the decision by the European Central Bank (ECB) in March and the UK government in August to extend their asset-purchase plans to include corporate bonds. Following the unexpected outcome of the Brexit vote and the possibility of a recession as a result, the Bank of England was keen to ensure that the largest corporations continued to borrow. By buying these assets, the interest rates that needed to be offered to attract investors would remain low and therefore make it easier to borrow money.

Helping the eurozone economy

The ECB's reason for doing this was more to look at increasing inflation and to assist the flagging eurozone economy. However, by purchasing these assets, a floor has in effect been put under corporate bond prices, which has driven spreads lower. It is interesting to note that it was spreads in corporate bonds denominated in euros that declined the most on average during 2016, down 43% compared with GBP and USD, which both experienced similar declines of 33.7% and 32.6% respectively. In the hunt for yield, investors have moved down the capital structure, looking at speculative-grade securities. They have also moved towards USD-denominated debt, which offered much more attractive yields compared with EUR and GBP, as we can see in figure 2, below.

Figure 2: Average BBB corporate bond spreads by currency 2016



Source: S&P Global Market Intelligence Data as of 10 February 2017

Other sectors that have benefited from the asset-purchasing plan are utilities and consumer staples. According to the Bank of England corporate bond sector shares, these two sectors made up 35% of the total number of corporate bonds that were repurchased. Our data shows us that the spreads on 10-year BBB-rated GBP utilities tightened 43.9% from 141.5bp in January 2016 to 79.4bp by the end of the year. Interestingly, spreads in 10-year GBP BBB utilities finished the year lower than EUR and USD currencies, despite an increase in the lead-up to the Brexit vote. Spreads in euro-denominated BBB 10-year debt was also down 43% (151bp to 86bp), while US-denominated spreads tightened 47% (378bp to 157bp).

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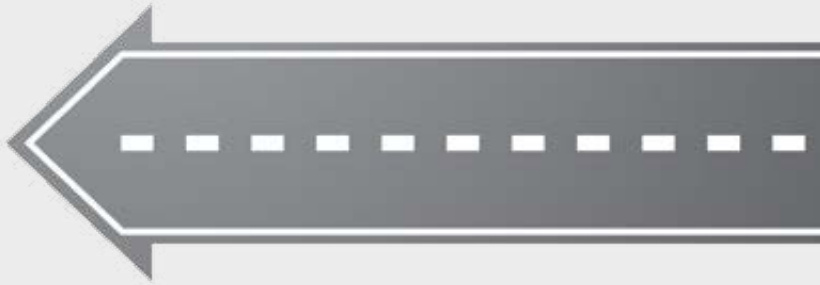

Spreads in BBB-rated 10-year consumer staples debt, a sector that is typically sought after during times of volatility and uncertainty, tightened 47% (EUR), 35% (GBP) and 22% (USD), meanwhile. With improving economic growth, it is feasible that interest in this sector may decline. However, given the continued uncertainty surrounding Brexit and the pace at which the US may raise interest rates, this sector is likely to continue to interest investors, which could cause spreads to tighten further.

What does the future hold?

With all the volatility caused by the macroeconomic environment and the dramatic changes in the political environment, 2016 is sure to be a year that won't be forgotten in a while. However, despite many investors worrying that spreads and defaults would continue to rise and that the situation would worsen, particularly in the energy sector, quite the opposite has occurred. The initiatives on the part of the ECB and the Bank of England are providing strong technical support for credit spreads at the moment and there is potential for spreads to continue to decline as these asset-repurchasing plans continue into 2017.

It could be argued that there will continue to be good opportunities around for 2017. However, investors will possibly need to take a few more risks. With default rates for the energy sector declining in 2016 and the forecasts suggesting that this trend will continue, this area could provide an opportunity in 2017. The search for yield will continue, which may mean further issuance and investment into speculative-grade corporate debt. It now seems prudent to expect the unexpected; Brexit, the Trump administration, the eurozone elections and questions about economic growth will all have an effect on the direction of credit spreads. In addition, the uncertainty around all of these elements will ensure that volatility remains during 2017, so there may yet be a few more bumps in the road.

James West is EMEA head of market development for public sector & professional services, S&P Global Market Intelligence

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TREASURY IN EXTREMIS

TURNAROUND SITUATIONS MAY NOT BE DESIRABLE, BUT TREASURERS ARE UNIQUELY WELL PLACED TO OFFER SUPPORT TO COLLEAGUES, COUNSEL TO THE BOARD AND TRUSTWORTHY COMMENTARY TO BANKS. FOUR TREASURERS REPORT ON THE QUALITIES AND SKILLS REQUIRED

I always sum up treasury in six words: the efficient management of financial risk. As treasurers, we spend our lives trying to avoid or mitigate risk to ensure the worst doesn't happen. But what if it does? What if we run out of liquidity or a government nationalises our major overseas investment?

As treasurers, we can put in place systems and processes, and purchase instruments to manage FX exposures and interest rate risks. We can ensure liquidity through reporting and forecasting, and putting in place facilities. But what happens if the forecasting is wrong, omits a risk or there's just a risk that we can't forecast? What happens to our liquidity and funding if the forecast profitable trading just doesn't happen?

Every so often, mismanagement or adverse conditions can start a cycle of losses, and the business hits a downward spiral. Contracts are lost, key people leave, customers go elsewhere, suppliers smell risk and their prices go up and terms reduce. Lenders, working capital providers and equity investors get twitchy – the business needs to be turned around.

The treasurer's position now depends on two things: were you there when the problems occurred or are you a new treasurer just brought in? If you're the incumbent, this can be a good or a bad position, and it's entirely up to you which one. Did you see the crisis coming? What were you doing about it? What were your forecasts and risk management activities based on? Why didn't you highlight problems to management and, if you did, were you forceful or persistent enough?

Openness has to also be balanced with another core element of our ethics, which is confidentiality

The absolute essence of being a treasurer is ethics; it is our *sine qua non*. If you're not comfortable with the direction of the business, you are duty-bound to critically appraise plans and strategies, and not just go along with management.

The ACT's ethical code is clear and unequivocal – our duty is to the company, not to individuals or the board, or any class of creditor, but to the entity as a whole. If the company does well, all do well. A successful company has satisfied customers, keen suppliers, motivated staff, banks doing good business and being repaid, and contented shareholders.

DISCLOSURE AND CONFIDENTIALITY

If you've been seen to be flagging the issues, if you've been sending out clear messages to the business and the decision-makers, warning lenders of risks, then people will see you were right all along and you will be seen as part of the solution.

However, if you haven't been absolutely straight with the lenders; if you've toed the management's improbable line just for a quiet life; if your integrity is in question, then at the very least your reputation will be damaged, if not totally lain waste.

Of course, openness has to also be balanced with another core element of our ethics, which is confidentiality. We cannot breach a confidence and make disclosures that could harm the entity that employs us. This, again, is a non-negotiable. So, how do we balance honesty with confidentiality? What if we feel we have to disclose something, but to do so could jeopardise the business? And what if our concerns and reason for disclosing are wrong?

The balance between disclosure and confidentiality is often a matter of judgement – one of the core qualities a treasurer must have. Identify risks and act appropriately, which may mean seeking advice from colleagues, peers, lawyers or the ACT's ethical adviser, the Archbishop of Canterbury. Taking advice isn't a sign of weakness, it's a sign of good judgement.

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So, you're in one of three positions:

- Incumbent saviour;
- Incumbent problem; or
- Brand-new party.

The guiding principles for action are as follows:

Rule one – get control of the cash. Those cash reports and forecasts that subsidiaries used to send in if they could be bothered are now the lifeblood of the business. Invoicing forecasts and statements of payment terms by individual customer and supplier are all needed. If you don't have the CFO fully behind this effort, shout and shout again.

Rule two – you have to have full control over how much cash you need, when you need it, where you need it and in what form you need it – cash, letters of credit, construction bond or receivable sale. This is all much easier said than done and will require hard work and persistence. You won't be able to take these forecasts or requirements at face value; you will need to check and recheck them, validate them, confirm them and challenge them. This will consume time you don't have.

This means long days and longer nights. You'll be in the office before 7am, and leaving before 10pm will feel like sloping off early. If you're an interim, make sure your day rate reflects this or quote for an eight-hour day and pro-rata for anything longer.

Rule three – communicate, communicate, communicate (always referring back to 'confidentiality'). The banks will likely have been in the dark for some period, as may the board and shareholders. The board and shareholders may even be new. You have to establish your credibility and that means remedying what will invariably have been a past failing. (If you're new and untainted by the past, you will be granted a honeymoon period. The standard for this, in my experience, is around two hours.)

Rule four – don't forget to be keenly aware of the longer-term goals and strategies of the company. Is the business being streamlined for a trade sale or a further equity raise, or stabilised to

resume growth later? Decisions made now will impact on the future. A long-term, committed leasing line may look great now, but could look costly and shortsighted in future.

Rule five – show leadership towards others – upwards, downwards and sideways. Your staff will be having a torrid time and they're probably getting paid a good chunk less than you; so give them the benefit of the doubt. Assume they know what they're doing and make them believe you know what you're doing. Take some of the pressure yourself; keep the team motivated.

Your peers will probably be a bit shell-shocked and likewise the board. Show them that there's a plan, a route ahead.

Rule six – you're the guardian of the cash; *everything* has to come through you. All decisions that can affect any financial risk have to be approved by you, even at board level. This can feel like an onerous responsibility. What if you get it wrong? What if everyone hates you for it and thinks you're an idiot? Welcome to senior management.

Rule seven – know and understand the business. Learn the commercial operations and how they work. Communicate with your operational and support colleagues. Get to know the legal counsel very well. Without that understanding, you don't stand a chance of knowing the true risks in the business or being able to manage them to the extent that they affect you. You won't know what the business needs – is it trade finance instruments for raw materials, leasing for equipment or credit insurance for receivables financing?

This approach will also build up your network around the business, your early-warning system, as well as generating some goodwill from operational colleagues.

So, are you now equipped for a turnaround? Well, not by anything I write. You have been equipped by the ACT training, the Association's ethical code and your own common sense. Taking on a business in turnaround is undoubtedly stretching and it's a time during which you'll need to hold on to a strong sense of your capabilities. Good luck.

Gary Slawther is director of Corporate Advisory Resources FZE. He has considerable experience of turnaround situations

Special situations

There are other situations that stretch treasury professionals in ways similar to turnaround, with perhaps the most challenging caused by a large acquisition or merger.

Here, the focus of the treasurer, the work that needs to be conducted and qualities needed are very similar to those required for turnaround. Arguably, the time pressures and deadlines, which often cannot be moved, make for even more challenge.

In M&A situations, the treasurer is not always brought into the deal team as early as we would like. Once we are, we can expect our lives to become vastly more complicated and the workload intense. At such times, we need to be able to mobilise all possible resources, manage effectively and sometimes ask for more – advisers or interim professionals are worthwhile considerations.

We can expect our technical skills to be used to the max. For instance, usually there will be requirements for funding, hedging, reporting and policies to be rewritten as well as structure, systems and teams to be mapped out. However, our 'softer' skills can play an equally important part, leading to a successful outcome, and smoothing the way for a good post-deal integration. Good time- and project-management skills are essential, as is the necessity to communicate effectively and negotiate with many parties, such as funding banks, lawyers and also internally with other departments. Our ability to manage change and look at the big picture while being able to handle the detail is important, and all the while we need to be mindful of the politics invariably played out.

We can expect our ethics and professional integrity to be challenged. Typically, we will encounter areas of potential conflict, since mergers by definition seek to eke out value for shareholders, usually leading to restructuring. Our ACT training on ethics should guide us to do what is best for the company and act according to our professional standards.

Nav Batish FCT is managing director of Phoenix Finance

Turnaround: a personal perspective

In my experience, a treasurer who goes through a turnaround situation for the first time and stays the course will become a better treasurer.

We must not forget that the primary role of the treasurer is to serve the business. Ultimately, people's jobs and futures are at stake. It is this aspect of a turnaround that gives me the most satisfaction – your professionalism and efforts have saved people's livelihoods.

There will be times during the turnaround process when a treasurer may have to remind bankers and parties on the other side of the negotiating table that the objective is to ensure there is a stable business at the end of the process. Alienation of the workforce during the process is not in anyone's interest; there

You're the guardian of the cash; *everything* has to come through you. All decisions that can affect any financial risk have to be approved by you... This can feel like an onerous responsibility. What if you get it wrong? What if everyone thinks you're an idiot? Welcome to senior management

would be no business to turn around without the individuals employed in it.

Any turnaround will test every aspect of a treasurer's knowledge, training and experience. Under a financial restructuring, in particular, the business is on the edge of a precipice to begin with and is then put through further stress under the rules and agreements that govern the business during that restructuring. The treasury department will be the central focus of attention from within the organisation, and for those outside the organisation, such as bankers, auditors, lawyers and external advisers brought in to assist the board and senior management.

From the outset, it is imperative for the treasurer to understand the following and how they impact the treasury department:

- The process for the turnaround and the initial timetable;
- The parties that will be involved and their remit, in particular any outside advisers; and
- The immediate documentation requirements.

Having established what is required from the treasury department, the treasurer will then have to assess the strengths and weaknesses of individuals in the treasury team. The department will have to manage day-to-day activity of the treasury as well as the intense workload emanating from the turnaround process. This may mean reorganising the function so that individuals are tasked with the work they are the strongest in. Where there are weaknesses, the treasurer will need to be brutally honest and objective with any decision; it is likely that the treasury department post-turnaround will be a different structure and some individuals may not make it into the final team.

The treasurer must establish clear parameters for external advisers and needs to be wary of scope creep – the risk being that he or she may lose control of the department.

Jayesh Mistry is an interim treasurer and consultant

The treasurer must establish clear parameters for external advisers and needs to be wary of scope creep – the risk being that he or she may lose control of the department

Crisis management

Turnaround situations are effectively crisis management situations. In one instance, a client had been delisted from the stock exchange and had its bank facilities withdrawn, following a major fraud.

Its banking relationship had been transferred to the bank's restructuring group, and extensive and intrusive reporting requirements had been imposed in exchange for temporary working capital funding.

Throughout the business, members of staff were shell-shocked, demotivated and suspicious, and yet their help was needed to achieve a relisting on the stock exchange plus reinstallation of required lending lines and ancillary facilities.

The existing team was competent, but lacked the required experience and impartiality, and needed an interim capable of winning their cooperation, confidence and trust.

Additionally, the interim needed to gain the trust and confidence of the bank, which was assisted by their knowledge of the interim's past experience and knowledge gained over many years. This 'gravitas' was important, as was the impartiality as an independent contractor, in no way linked to current problems. Trust was achieved by constant communication, both by phone and by face-to-face meetings.

The bank insisted on daily cash-flow forecasts being produced before agreeing to any payments being made. This meant regular contact with the new FD, but also with divisional FDs and their staff. A strict criterion was imposed on which payments could be made, which meant understanding the details of the business quickly and juggling competing requests from stakeholders within the business. Customers were similarly required to settle payments promptly. A combination of firmness and diplomacy, discretion and professionalism were required, as well as compliance with the ethics of the ACT.

Tim Canty is managing director of Canty Treasury Management

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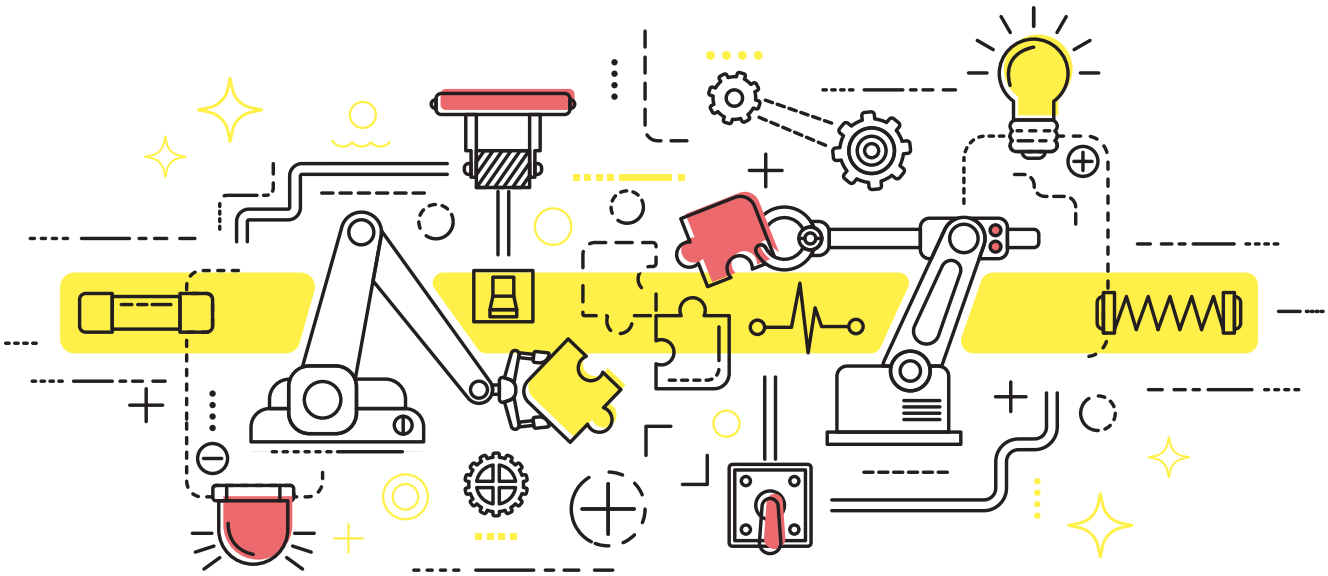
Forging connections

SIGNIFICANT ENHANCEMENTS IN TREASURY OPERATIONS ARE ACHIEVABLE THROUGH AUTOMATION. MUHANNAD TAMEMI EXPLAINS



There is no doubt that every organisation benefits from automating those manual and repetitive tasks that are time-consuming for individuals and contain an inherent risk. There are countless examples of productivity improvements, cost savings and increased efficiency. Deploying valued employees into roles that are more stimulating for them and add value to an organisation are clearly the focus of an enlightened management ethos.

The corporate treasury and finance departments are no exception and stand to realise significant benefits through automation.

Corporates in the Middle East are confronted with the many changes facing business and industry. Geopolitical changes, currency fluctuations, heightened regulatory focus aimed at putting an end to money laundering and terrorist financing, and advances in technology are just a few of the challenges. In this ever-changing business environment, corporate treasurers must do their part in keeping their businesses running smoothly. Today, it's not just the financial activities involved in delivering goods and services, making and collecting payments, and effectively managing cash and liquidity. There is a constant battle to keep pace with regulatory changes, often chaotic economic ups and downs, and support the prudent financial planning for future growth and expansion of their organisations.

To do this efficiently and cost-effectively, corporate treasurers need greater speed, transparency and predictability of cash and trade services, as well as increased working capital and secure funding. They want the transactions they process to be as speedy and as convenient as those they conduct as consumers. At the same time, they need to be able to embrace regulatory changes and be agile enough to cope with business growth, and potentially M&As.

Without automation, scalability of business is very challenging and costly.

The case for automation

Manual processes have evolved over many years – when resources were plentiful and affordable, the reliance and trust placed on people to manage company financial transactions was the norm. As organisations expanded and their need for multi-bank relationships grew, so did the 'paperwork', and the answer was typically to increase manpower.

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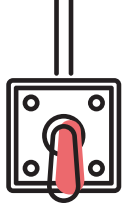
It is not only large multinational corporations that have relationships with many banks, both local and international, each requiring the implementation of proprietary systems and processes for the processing of transactions. Indeed, any business that expands globally is required to establish multiple bank relationships to cover different geographies or business requirements. Without automation, this creates a high-cost, high-risk environment. As treasury teams manually check, record, transfer and re-check data from multiple banks, the danger that errors will arise is heightened.

Replacing manual spreadsheet reporting with automated treasury management systems (TMSs) or enterprise resource planning (ERP) systems can deliver significant advantages in terms of reduced costs, risks and the ability to deploy treasury staff to more productive activities. The ACT's 2016 treasury survey found extensive use of spreadsheets for managing the treasury function, particularly among companies with a turnover of up to £1bn. However, those using specialist treasury



management technologies reported considerable success in automation, reducing operational risk and increasing visibility over cash and liquidity. Treasurers who do not currently use a TMS identified the above areas as key improvement priorities for the year ahead.

The benefits of automation

The automation of treasury processes offers numerous benefits, including:

- Single sign-on instead of multiple bank web log-ins, thus reducing the amount of time spent interfacing with banks;
- Reduced costs as cross-bank transactions and related fees are minimised;
- Reduced human error;
- More detailed audit trails; and
- Standardised processes and systems that enable compliance with global messaging systems.

The cost reduction and improvements in operational efficiency that automation can deliver, will help treasuries to meet regulatory and compliance requirements that are increasingly focused on security and efficiency. Automation is essential to improving straight-through processing rates for corporate cash management. By enabling as many processes to go straight through as possible, cash and liquidity management can be improved, with staff focusing their attention on exceptions, which enables speedier resolution.

The use of standards is a key factor in increasing automation and reducing risk. In particular, the ISO 20022 financial messaging standard is helping banks and corporates to improve their communications with each other. The standard enables more information to be passed between parties, ensuring greater control and transparency via information-rich messaging.

The real-time tracking of intraday liquidity movements in real time that automation allows, delivers greater control over, and more efficient management of, liquidity. Real-time tracking of payments investigations (for example, when a beneficiary of a payment claims non-receipt) also allows speedier dispute resolution.

Streamlining treasury operations

In order to capitalise on the wave of automation that is transforming treasury departments, a robust and secure international communications network using international standards for financial messaging is essential.

By extending automation from within the organisation to their external banking partners, corporates benefit in the following ways:

- Secure financial connectivity – with increasing cyberattacks, security is a hot topic and headache for every company today. A trusted financial communication network with robust security and continual technical and expert investment is essential;
- Automation and compliance – automation helps corporates to reduce costs, improves operational efficiency and helps them to meet the ever-increasing regulatory and compliance requirements;
- Identity and mandate management – another important aspect for security and control; and
- Certainty and efficiency in the supply chain – receiving payments from customers and, importantly, ensuring payments to suppliers, partners and service providers is essential for efficient cash management and control.

Standards are at the heart of a reputable financial communication network, and the positive effect on the financial supply chain can be demonstrated by the increasing traffic flows between corporates and banks, driven by the growing demand for automation and operational efficiencies.

Making life easier for corporates in the Middle East

The Dubai-based shopping mall, retail and leisure corporation, Majid Al Futtaim (MAF) is an excellent example of a successful automation project. Using the Paris-based integration company BAS, MAF moved from manual to automated processing using the payments factory model. Its centralised financial hub handles the execution of payments to multiple banking partners, from decentralised accounts payable departments from their many and diverse businesses.

MAF uses a cloud-based connectivity solution as the interface between its centralised treasury department and its multiple bank partners. The agile solution supports adding or removing future banking partners without any impact on day-to-day operations.

Saudi Chevron Philips Company (SCP) is another company that uses a single channel to connect to its multiple banking partners. As a shared service centre to five joint venture companies, SCP's solution enables its treasury to add or change banking relationships, add new business entities or make changes to formats quickly, cost-effectively and without disruption. While the initial value proposition was to support improved and efficient payments processing, treasury is now implementing electronic balance reporting and auto-reconciliation, with plans to address other strategic priorities, such as KYC regulations and trade services through their infrastructure.

> Automation is essential to improving straight-through processing rates

Into the future

The demonstrable benefits of automation of financial processing speak for themselves. What is a very important benefit for corporate treasury departments is that they are creating a robust infrastructure that can embrace new industry initiatives.

With the automation of cash management, reconciliation and liquidity management, a treasury team can be confident that it is providing management with data that is reliable and up to date. With careful planning of automation projects and selecting the trusted technology partners, treasurers can create a robust financial infrastructure that will bring confidence to the prudent financial management and timely decision-making that is essential for success in business today.

Muhannad Tamemi is senior account director, SWIFT

TIME TO DEBATE AND REFLECT

The ACT's Middle East Annual Summit offers insightful speakers and plenty of opportunity to interact with fellow treasury and finance professionals

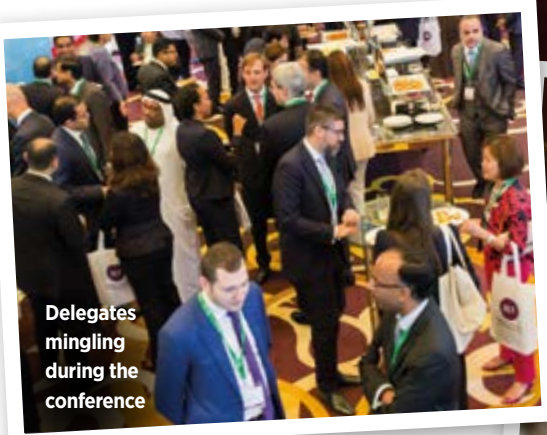
Words: **Peter Matza** / Photos: **Grant Bishop**

The Middle East's largest and most established networking event for treasury and corporate finance professionals took place in Dubai in November at the Conrad Dubai Hotel.

Now in its eighth year – our thanks, once again, to sponsor HSBC – the ACT Middle East Annual Summit attracted just under 500 treasury and finance professionals, who gathered to hear thought-provoking insights from 52 speakers, with subjects ranging from bank relationships, trade finance, treasury technology to women in finance.

In an increasingly globalised world, the connectivity offered by the Middle East's only professional treasury conference is unique. What really matters, though, is the opportunity for dialogue, for the exchange of ideas, and to see, hear and engage with leading treasury practitioners from across the region.

Dr Florence Eid-Oakden, CEO and chief economist at Arabia Monitor, opened the conference with an enlightened view of the Middle East today, a fascinating insight into the trends across the region (see box, right). Our technology forum provided plenty of discussion on the hottest questions for Middle East treasurers, including how technology change is informing change in business operations and how fintech is driving automation.



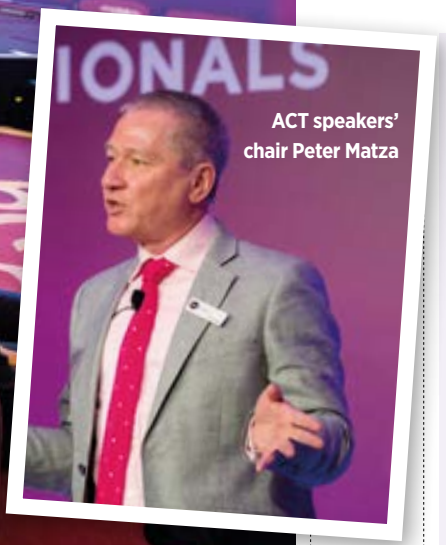
Delegates mingling during the conference

A high-profile part of the conference programme, our question-time session, featuring our keynote speaker and hosted by Lara Habib, of Al Arabiya News Channel, alongside other finance and business leaders, deliberated on topical issues, including what the outcome of the US elections and Brexit will mean for the Gulf. However, they also focused on a wider agenda and the need to look internationally for growth and development opportunities. National infrastructure projects cannot carry the burden of economic growth forever, they noted.

The impact of technology as an enabler as well as its functional value was a key theme at the summit. Technology's role in terms of driving relationships in trade finance was discussed in one of day one's panel discussions, for instance. A question for careful consideration was how much corporates need to assimilate in terms of the newest innovations like blockchain in order to decide between traditional and new solutions. As one delegate put it: "While it's important to know what you *can* do, it's critical to know what you *must* do because execution and delivery are where you will be judged."

We also took the opportunity once again to congratulate our student prizewinners in the region on their many successes in the ACT qualifications with an awards ceremony during the evening networking reception (see box, far right, for more on our winners).

Dr Eid-Oakden presenting at the conference



ACT speakers' chair Peter Matza

Keynote insights

In the keynote presentation, Dr Florence Eid-Oakden, CEO and chief economist at Arabia Monitor, a research and strategy advice firm that specialises in the Middle East and North Africa (MENA), spoke on the geopolitical mapping of the Arab world today and the new-old players, including China and Iran.

In her presentation, 'The Middle East Today: What is exceptional and what isn't?' Dr Eid-Oakden discussed Chinese-MENA relations, in particular China's 'One Belt, One Road' strategy and its aim to enhance trade flows and spur long-term regional economic growth and development, to mutual benefit.

As China's strategy to internationalise the renminbi and its 'One Belt, One Road' initiatives make headway in the MENA region, Beijing is also renewing its efforts to conclude a free-trade agreement with Gulf Cooperation Council (GCC) countries. Sino-Arab trade grew from $50bn in 2004 to over $250bn in 2015, an average 32% increase per annum.

Dr Eid-Oakden was optimistic about the future for Sino-MENA trade, which is forecasted to exceed $600bn by the end of the decade. While energy dominates the bilateral relations, high tech, tourism and foreign direct investment are among the fields that will see ample room for growth. She also highlighted that Iran's return to global markets will present regional economic challenges and opportunities. Iran holds 10% and 15.8% of the world's crude oil and gas reserves respectively, but its ability to increase output significantly requires investment that had fallen short due to sanctions.

In her closing remarks, Dr Eid-Oakden noted that some countries across the region appear to have factored in regional tensions and low oil prices, and while the issues that arise are beginning to be contained. Macroeconomic challenges linger in places, however. Fiscal deterioration has been faster in Saudi Arabia, Bahrain and Oman than in Kuwait, Qatar and the United Arab Emirates, where reserves have cushioned the short-term negative impact and allowed for a more gradual adjustment, prompting divergence in the GCC sovereigns' credit profiles.

CELEBRATING SUCCESS

At the Middle East Awards we recognise the dedication, hard work and commitment of students in the region and we're delighted to share these ACT prizewinners with you:

MIDDLE EAST STUDENT OF THE YEAR AWARD

Kata Pasztor, treasury finance officer, Etihad Airways

OUTSTANDING ACHIEVEMENT AWARDS

Certificate in Treasury Fundamentals (CertTF): **Awrad Alenezi**, treasury executive, Agility Public Warehousing Company

Certificate in Financial Maths and Modelling (CertFMM): **Manoj Agarwala**, group treasury manager, Petrofac

Certificate in Corporate Finance and Funding (CertCFF): **Farhad Poacha**, business analyst, HSBC

Certificate in Risk Management (CertRM): **Geoffrey Khoury**, analyst, Agility Logistics

Certificate in International Cash Management (CertICM): **Vineet Gupta**, senior treasury manager, Majid Al Futtaim

Certificate in International Treasury Management (CertITM): **Stephanie Arnold**, cash manager, Nestlé Middle East

AMCT ACHIEVEMENT AWARDS

Manoj Agarwala, group treasury manager, Petrofac
Adam Boukadida, deputy treasurer, Etihad Airways
Benjamin Hughes, executive director, The National Bank of Abu Dhabi
Farhad Poacha, business analyst, HSBC
Anuj Rohtagi, senior manager, Kuwait Projects Company (KIPCO)
Anissa Teemul, treasury analyst, National Central Cooling Co – Tabreed

CONSTANT VIGILANCE

CYBERSECURITY BREACHES AND CYBERCRIME ARE A GROWING PROBLEM FOR TREASURERS. BUT IF YOU WANT TO EXPLOIT TECHNOLOGY DEVELOPMENTS, YOU ALSO NEED TO PROTECT AGAINST THEM. LESLEY MEALL REPORTS

You are being watched. You are being targeted. You need to be careful. Your name, job title, colleagues and contacts have been collected from social media. Details of your customers and suppliers have been sourced, verified, sifted and prioritised. You are now a pawn in a cybercrime scam. You may be on the brink of your very own personal or professional cybersecurity nightmare.

Over the past year or so, cybersecurity breaches and cybercrime threats have rarely been out of the headlines – and their magnitude, sophistication and success seem to be on the increase. Notable incidents include:

- Leoni AG, Europe's largest manufacturer of electrical cables, and its loss of €40m in what was widely reported as an 'email scam';
- Theft of money from the personal accounts of 20,000 customers of Tesco Bank in what it describes as a "systematic, sophisticated attack";
- Use of an employee login to hack into systems at Three Mobile and steal the personal data of its customers; and
- Use of the SWIFT credentials of Bangladesh Central Bank employees in fraudulent money transfers amounting to an estimated $81m.

Clearly, bank infrastructure and corporate payment systems are popular targets – and a worry for corporate treasurers. When you are responsible for managing and controlling your group's cash, initiating and approving treasury, vendor and employee payments (and protecting the related personal and financial data), you have a crucial role to play in protecting those assets from cyberthreats.

Raise your game

It makes sense for treasurers to take a more proactive role in the development of the processes and people skills that will help to reduce the risk that cybercrime may have a negative impact on their areas of responsibility. However, when treasurers do become involved in broader company-wide and cross-functional discussions around cybersecurity, they will need some knowledge of the main cyberthreats.

Acquiring this can be a stretch. There is lots of public-domain information and guidance out there (perhaps too much). Inconveniently, it tends to be either too general or too focused on technology. In 2014, the ACT worked with government and other professional bodies to create specific guidance, and you can find *Cyber-Security in Corporate Finance* at www.treasurers.org/node/9799

At www.treasurers.org/cybersecurity you will find a recording of an ACT webinar from 2015. In this, ACT specialists and an external banking security specialist (from RBS) discuss key cybersecurity threats facing the public and private sectors – and offer some practical hints and tips on what treasurers can do to minimise the potential for associated disruption, fraud and reputational damage.

SHUTTERSTOCK

Reality check

Yet in PwC's recent research report *The 'virtual reality' of treasury*, only 19% of treasurers list security as a critical concern. Sebastian di Paola, global corporate treasury leader at PwC, suggests that treasurers should be "collaborating more with the business, shared services and banks and raising their game in IT security and financial risk management".

On the face of it, raising your game in IT security may seem challenging. Although the consumerisation of digital technologies has made many aspects of IT seem less complex and mysterious,

"Many of us think we have a good handle on different types of security risks, but the reality may be a little different"

cybersecurity has become more so. Threats such as phishing, ransomware, spoofing and whaling can make cybersecurity (and crime) appear more impenetrable than a firewall.

Even less opaque terms such as 'hacker' and 'email scam' can obfuscate or enlighten. "Many of us probably think we have a pretty good handle on the different types of security risks that can threaten our business. But the reality may be a little different," says Ian Kilpatrick, cybersecurity vice president at Nuvias Group. Treasurers may need to read between the lines in IT security as cleverly as they can in finance.

Between the lines

Let's consider the widely reported 'email scam' at the German company Leoni AG. A company statement confirmed that it became "the victim of fraudulent activity with the help of falsified documents and... the use of electronic communications channels". It put the "outflow of liquidity totalling around €40m" into perspective, by noting that its liquidity situation was not "adversely affected in any material way".

Treasurers know what a slippery customer materiality can be. So can phrases such as 'falsified documents' and 'electronic communications channels'. Apparently, the perpetrators spoofed emails to appear like official payment requests from Leoni in Germany, then sent them to a finance exec at just one of Leoni's four Romanian factories: the only one with the authority to make money transfers.

Perpetrators of email scams do not only target companies in a position to lose millions. The treasurer at a mid-sized non-profit has also been targeted; to conceal his identity, we'll pretend he's female and call him Claudia. "I'm proactive about IT security," she says. "Even before the scam, I had initiated a dialogue with the IT manager, to tighten up procedures to protect my login and payment credentials."

Unfortunately, this didn't prevent a fraudster's email prompting a change to the bank details of a regular supplier, which led to two electronic transfers (amounting to £20,000). "Accounts payable accepted the email as genuine. The FD signed the TT [treasury transaction] forms, then I authorised the supplier payments. Twice," she says. "Now any request to change customer or supplier bank details is verified."

Socially engineered

The frauds in Romania and the UK were both enabled by technology (spoofed emails), and made easier by technology (electronic payments can be liquidated more quickly and easily than cheques). However, only the victims and criminal investigators have any chance of establishing whether identification of the weak points in their internal policies and processes owed more to technology or to people.

Either way, in both cases, the frauds were successful because, at the final stage of the process, the victims' employees were either directly or indirectly 'socially engineered' into willingly handing over company money, because they believed that they were engaged in legitimate transactions. In their defence, there are some 'very good reasons' why they were so easy to manipulate.

> "An organisation that has bulletproof doors and windows won't necessarily be able to protect against someone who can walk in as if they were a trusted individual"

Jayan Perera, an associate director in cyber consulting at Control Risks, says: "An organisation that has bulletproof doors and windows won't necessarily be able to protect against someone who can walk in as if they were a trusted individual." As he observes, social engineering attacks and other more advanced attacks are easily by-passing the reinforced perimeter walls we have spent years erecting.

Mixed blessings

These frauds and the false sense of security that may be created by strong perimeter defences (such as the firewalls and other tools we rely on to keep out the baddies), raise some interesting issues for treasurers. They also highlight why it may be easier than it at first seems, to follow di Paola's advice to "raise your game in IT security" – without becoming an expert on it.

Many of the steps that need to be taken to protect the software and systems (and data) that impact on treasury (and how effectively it can manage cash and liquidity and financial risk) cannot be addressed only with cybersecurity technology. To be successful, they also require organisations to devote resources to the development of appropriate processes and people skills.

Treasury has a vital role in raising awareness and developing guidance for others in the financial supply chain; but collaboration will be key. PwC's research found that just one third of people involved in treasury processes report in to the treasurer. So di Paola suggests that "treasury should be seen very much as a process rather than a department".

Plan for action

More detailed guidance for those involved in treasury processes is available in *Cyber Fraud – the Impact on Treasury* (www.bellin.com/resources/whitepapers), which was written by Royston Da Costa, group assistant treasurer at Wolseley. He says: "My hope is that treasurers will read it and if they have not already done so, conduct a full review of their key treasury processes including payments."

As cybersecurity is a fast-moving area, threat monitory must be an ongoing process. During 2016, 'whaling' emerged as a major social-engineering threat; using the names of legitimate senior executives and (spoofed) email addresses to dupe employees into wiring criminals sensitive documents or money. This year is likely to bring more of the same – plus some new cybersecurity nightmares.

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Lesley Meall is a freelance journalist specialising in technology and finance

{ ENERGY }

JEREMY WARNER

The accepted cost-supply cycle of oil has been turned on its head by new extraction technology. And renewables are asserting their role, too

Remember 'peak oil'? This was the idea popularised by a Shell geologist back in the 1970s, that because the world's reserves of oil were finite, and at that time thought to have been already largely discovered, production would soon peak and then go into precipitous decline. By now, we were meant to be running out, resulting in sky-high prices, rationing and descent into international conflict for scarce energy resources.

It never happened. In the event, more and more oil and gas keeps on being discovered. What's more, the technologies for extracting it at relatively low cost have also come on in leaps and bounds. Tight oil and shale gas in the US are only the most high-profile examples of this.

This has given rise to a new worry for fossil-fuel producers – 'peak demand'. Already, demand for hydrocarbons in advanced economies is beginning to fall. Rising use in the developing world ensures that, overall, global consumption should continue to grow for some years to come yet, but the peak may be much closer than generally appreciated.

In its latest *Energy Outlook*, BP expressed the view that for oil alone, known reserves are sufficient to satisfy expected global demand two times over for at least the next 25 years. Far from running out, there is an enormous abundance of the stuff out into any foreseeable future.

SHUTTERSTOCK

A barrel of oil might well be worth more left in the ground

As a commodity product, oil is quite unusual in that it manages to accommodate both low- and high-cost producers. This anomaly has a lot to do with the idea of 'peak oil'. A barrel of oil, it was commonly thought, might well be worth more left in the ground than extracted. Assuming demand remained stable or increased, its value would appreciate as global reserves began to deplete.

Big low-cost producers, such as Saudi Arabia, therefore have a vested interest in constraining supply, driving the price up to levels that support much higher-cost production. But if demand goes into decline while known reserves keep expanding, then everything is turned on its head. A substantial proportion of reserves will end up essentially valueless, or 'stranded', and therefore never extracted.

In such circumstances, it would pay for producers to forget their self-denying constraints, and sell as much of the stuff as possible while they can still get a halfway decent price for it. This, in turn, would create a glut, and a permanently depressed price. OPEC's recent agreement to limit production would become the organisation's last hurrah, and wouldn't hold. Eventually, one or more members will go for broke.

Underpinning this way of looking at the future of oil is not just the constantly increasing size of known reserves, together with the likely falloff in demand as economies mature; another peril already biting at the industry's ankles is the growth of renewables.

You don't have to buy into the prevailing orthodoxy of man-made climate change to see that these 'clean energy' sources are fast approaching a tipping point, which, through economies of scale and improvements in efficiency, promises to make them cost-competitive, possibly quite soon, with more established forms of energy supply.

Eventually, subsidies and carbon taxes will no longer be required to ensure their success. Light-emitting diodes, onshore wind, solar power and electric vehicles have all achieved such momentum that it is now more appropriate to see them as a transformational tech shift than a regulatory response to global environmental challenges.

Renewables are very unlikely ever to replace hydrocarbons entirely – or at least not until a substitute for aviation fuel is found; oil and gas, if not coal, will remain a key part of our energy needs for quite a bit longer yet. But we could be looking at a much swifter decline than generally imagined, with big implications for the price of oil and, therefore, the future of its main producers.

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Jeremy Warner is assistant editor of *The Daily Telegraph* and one of Britain's leading business and economics commentators

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