**A POST-SANCTIONS IRAN**
Navigating risk and reward in the region's new land of plenty

**DIGITAL ADVANCEMENT**
Middle East technology adoption puts treasury in the foreground

**GREAT EXPECTATIONS**
The treasurer's workload gives banks a chance to collaborate

# Middle East Treasurer

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS MIDDLE EAST ◆ WINTER 2016

## Pricing dynamics, credit risk and signing deals

Rahul Daswani, Microsoft Dubai's structured finance expert, on how he supports sales in the region

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LEADING TREASURY PROFESSIONALS

# Editor's letter

Economic readings of GDP growth continue to fluctuate wherever you look across the globe. But while earlier in the year, observers wrung their hands and revised forecasts downwards for the Middle East, the story seems to be changing.

According to economic consultancy Focus Economics, for instance, across the Middle East and North Africa expectations are rising. Though it remains vulnerable to geopolitical risk and oil market volatility, the region's 2016 growth projections have stabilised at 2.3% – and 2017 growth is now projected to rise to 3%.

For Gulf Cooperation Council countries in particular, there are successes to be celebrated within that admittedly delicately balanced position. Some of those successes are commercial; others are the work of public policy, as we explore in this issue of *Middle East Treasurer*.

The willingness of corporates to adopt digital solutions and also to grapple with the complex landscape of traditional providers and fintechs is increasingly evident in the Middle East. And the skills of corporate treasurers to deploy and promote viable and worthwhile solutions are coming to the foreground more and more.

In our profile on page 4, Rahul Daswani, group treasury manager for structured finance at Microsoft in Dubai, explains how his team can help build the case for sales from companies in emerging markets. He looks at pricing dynamics and credit risk to assess the viability of transactions and factors new measures, such as whether the deal, once achieved, can be readily repeated in another territory.

Returning to our economic perspective, one country exciting forecasters is Iran, which is expected to outperform other countries in the region on growth, as multinationals cluster around the opportunities that the lifting of sanctions has brought. Our feature on how treasurers will have to take a pragmatic approach within an environment full of risk and low on transparency, begins on page 8.

Elsewhere, we look at liquidity, banking relationships and risk. I hope you enjoy the issue.

**editor@treasurers.org**
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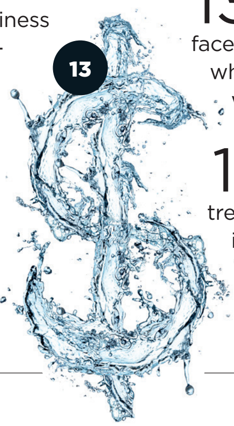


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## Middle East Treasurer

is the official magazine of
**The Association of Corporate Treasurers Middle East**

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**MIDDLE EAST TREASURER ©2016**
Published on behalf of the ACTME by
**Think**, Capital House,
25 Chapel Street, London NW1 5DH
+44 (0)20 3771 7200
www.thinkpublishing.co.uk
**Editor** Liz Loxton
**Managing editor** Rica Dearman
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**Group account director** Ruth Lake
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# SWITCHED-ON TREASURY

Working in structured finance requires treasury to be close to and understand the sales and marketing side of business. Group treasury manager Rahul Daswani discusses how communication is the key in making this a success at Microsoft

Words: **Ben Poole** / Photography: **Grant Bishop**

While studying to become a chartered accountant, it became apparent to Rahul Daswani that a career in public accounting or audit was not where he pictured his future professional life.

"Many people enjoy roles like that, looking at a transaction after the fact, seeing what went wrong and providing a report," says Daswani, who today is group treasury manager – structured finance at Microsoft. "But I wanted to have a career where I am part of creating those transactions rather than auditing them. That was what led me to join a corporate, initially GE Capital, unlike many of my colleagues."

Having a customer services and operations role at that company, Daswani learnt the fundamentals around operations and finance that would go on to be his specialised field. Moving to Citibank, he took on various roles, including work around credit risk management and product development. "The core of my work started to revolve around financial risk analysis and the study of financial statements," he says. "That was when I decided that corporate finance was the area in which I would like to develop my career. Following that path, I moved to Nokia and then, through acquisition, to Microsoft."

**Technology trends**

Microsoft has a hybrid structure with most functions centralised in Redmond, in the US, while some of the sales support functions like credit services and structured finance are located around the world. Being a technology company, its teams are technically savvy and use Microsoft's own Azure cloud platform across all its treasury applications.

In structured finance, the clear goal is to support the sales organisation to sell more by addressing credit risk and the liquidity needs of the company's customers and channel partners. This is achieved through use of third-party balance sheets.

When the sales and marketing organisation requires support, Daswani looks at what the issues are and how a solution may be possible. "Once we have assessed that there is a realistic solution possible, my role is that of a project manager," he says. "I put all the stakeholders together, get the product from the banks, explain it internally to get the appropriate approvals from legal and accounting, and then execute the transaction by designing the operational process. It also means that I need to train the operational team, who will continue operating it going forward, so I have oversight of this."

**Funding feasibility**

Structured finance as an entity at Microsoft was established relatively recently, demonstrating the company's understanding of the need for the types of solutions it offers. This is particularly the case for sales in emerging markets that may not have the same macro environment as some of the developed markets.

"Credit risk is a very important element, but we are obviously still exposed to some credit risk after putting a funding structure in place," says Daswani. "We look at whether we have been able to help our sales organisation by doing a transaction that they would not have been able to do without our structure. We also look at the pricing dynamics to see whether it is viable or not. In addition to the financial ROI, this may include looking at the time you would spend putting the transaction together, the scalability of the transaction and how replicable it would be in the same geography or in another market."

## VITAL STATISTICS

**$85.32bn**
Microsoft net revenue

**$16.79bn**
Microsoft net income

**38%**
YOY growth of net income compared with 30 June 2015

**114,074**
Staff headcount worldwide

**122**
Countries with Microsoft subsidiaries

**1975**
Year in which Microsoft was founded

*All statistics taken from the fiscal year ending 30 June 2016*

Enhanced cash flow is a valuable side effect of some of these structured transactions, but it is not a key driver. Growth in revenue and supporting customers and channel partners remains the key focus.

"I work with a relatively small team in structured finance, and each of us contributes to the discussion on how we can develop the function," says Daswani. "We look at what we do in one geography and see how that can translate to other areas around the world. The fun part of this role is that we can share strategy and the way in which we conduct these transactions."

**Communicating the benefits**

Like many large global organisations, Microsoft has a central corporate plan that is translated down to the broader field organisation – essentially a blueprint for success. Whether that success comes or not depends on how the company executes the plan. "You need the resources and also the cutting-edge technology to achieve this group-wide communication," says Daswani. "We make our own tools like Skype for Business and SharePoint, so you could say that we have a built-in advantage here."

Communication allows everyone to understand the broader company strategy and, more importantly, how their team's goals relate to that broader strategy. Also, closer ties between the treasury function and the business allow the value that treasury adds to the organisation to be clearly seen, and vice versa.

"Treasury is recognised within the company as a career that requires specialised skills, and so treasury qualifications are very important," says Daswani, who achieved his AMCT qualification in 2015. "The company also encourages us to take on certain roles outside of treasury in different functions of the organisation, in order to get a better understanding of the business. Staff are then encouraged to come back to treasury and share their experiences."

Daswani describes studying for the AMCT as one of the best decisions he has made, and for more than one reason.

"I was studying for the AMCT some 10 to 12 years after I'd graduated. It really helped me refresh my concepts. There were also parts of the AMCT that were


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## “Treasury is recognised within the company as a career that requires specialised skills, and so treasury qualifications are very important”

completely new to me, so I was absolutely brought right up to date.”

The fact that he was studying for the AMCT alongside his corporate treasury role was also a benefit. “When you study these concepts, they are very real when you are also practising them in your day job,” explains Daswani.

### Middle East markets

Being based in Dubai, Daswani has a prime view of what is happening in the financial markets of the Middle East. Naturally, the topic of oil is never far from the surface.

“The development of financial markets in the Middle East has frankly been quite slow; for example, there is no good bond yield curve,” says Daswani. “One reason for this is the advantage that the oil economy has provided to this region. Higher oil prices provided government revenues that could then be invested in a broad range of projects. Today’s lower oil prices are changing the status quo – but it could actually be helpful in the development of the financial markets. Most governments will have to borrow in the near term to manage their investments, which could help to boost the financial markets.”

For treasurers operating in the region, or looking to expand into it, there are a couple of points that Daswani highlights as particularly worthy of attention. The first relates to receivables and credit risk management. “This is something that treasuries operating in the Middle East really need to own; it is the most challenging area of business in this region,” he says. “This is best managed by treasury, as it allows the treasurer to make longer-term strategic decisions that impact the cash flow of the company. Choosing the structure and the way we function is vital. In the longer term, this will reduce risk, allowing for lower loss provisions to be made that will impact the profit and loss.”

The second point to note is on funding and FX. Many countries in the Middle East, such as Saudi Arabia and the UAE, are linked to the US dollar. This has a tendency to reduce an FX risk element in people’s minds. “You also need to remember that the dollar depth in these markets is fairly limited,” states Daswani. “You may think you are in a dollarised economy, but then any time you want to raise any sort of financing, it comes at a much higher cost, particularly if you want to do longer-term US dollar financing. It is very difficult to benchmark pricing, as the bond markets are not very well developed and yield curves are not very well established.”

In this scenario, treasurers need to spend a lot of time negotiating terms, conditions and pricing, for example. “It is not as transparent as you would expect, even if the currency is linked to the dollar,” says Daswani. “Then there are certain countries that are not at all linked to the dollar, which bring their own FX challenges. This is unique to the Middle East market.”

## RAHUL’S TOP TIPS FOR SUCCESS

1

**“It is important to view banks as your partners and stakeholders. Some of the best solutions emerge when we actively listen and seek out creative ideas from our banking partners.”**

2

**“Ongoing education is a really important concept if you are going to be successful in treasury. My ACT studies have personally helped me to take concepts and use them in dialogue with stakeholders to properly express my point of view.”**

3

**“I try not to have a fixed mindset. I want to learn and understand different points of view. This can be a challenge. In many areas I am quite opinionated, so sometimes it can be difficult to detach my opinion and hear someone else’s point of view, but it is definitely something that I always strive to do.”**

## RAHUL’S CV

**January 2015-present**
Group treasury manager – structured finance, Microsoft

**July 2012-December 2014**
Regional treasury manager – India Middle East & Africa, Nokia

**September 2011-June 2012**
Manager, local treasury – India, Nokia

**December 2009-August 2011**
Customer finance manager – India & South East Asia Pacific, Nokia

**December 2007-December 2009**
Customer finance manager – India, Nokia

**November 2006-December 2007**
Business development manager – microfinance, Citibank India

**August 2004-October 2006**
Regional credit manager, Citibank India

**October 2002-August 2004**
Banking service and operations manager, Citibank India

**January 2002-September 2002**
Quality black belt, GE Capital International Services

**December 1999-December 2001**
Operations manager, GE Capital International Services

## QUALIFICATIONS

**2013-2015**
AMCT: CertRM, CertCFF and CertITM, ACT

**1996-1999**
Associate of Chartered Accountants, Institute of Chartered Accountants

**1994-1997**
Bachelor of Commerce (H), Delhi University

This article first appeared in the October 2016 issue of *The Treasurer.*

**Ben Poole** is a freelance writer and editor, specialising in treasury and transaction banking

# Strategies for Iran

**POST-SANCTIONS IRAN REPRESENTS A COMPELLING COMMERCIAL PROPOSITION FOR MULTINATIONALS, BUT THEIR TREASURERS WILL NEED TO MEET INFRASTRUCTURE ISSUES AND RISK FACTORS HEAD-ON. SEMIH OZKAN EXPLAINS**

Following the signing of a Joint Plan of Action (JPOA), a state of commercial hopefulness surrounds Iran. The immediate outcomes from the lifting of economic and trade sanctions have been: increased oil and gas production and exports, trade deals, the unfreezing of assets and, last, but not least, reconnection to the worldwide interbank financial telecommunications network.

Iran's oil and gas sector is the most obvious beneficiary of the post-sanctions era. The sector not only delivers around two-thirds of the country's revenue, but its restoration paves the way for foreign direct investments. In a relatively short period, the sector achieved pre-sanction production levels of nearly four million barrels a day and exports of two million barrels a day, well above the expectations at the time of the agreement, and a development that has helped Iran regain market share in Asia and Europe.

A wide range of foreign trade and direct investment deals, including a handful with US companies, were concluded following the lifting of sanctions. Iran also gained access to more than $100bn of overseas frozen assets. Meanwhile, SWIFT reconnected a number of Iranian banks, including the Central Bank, to its network, making financial transactions more transparent and economical for the country.

In light of these developments, Iran's central bank has said it expects GDP to rise above 5% this year. The International Monetary Fund similarly readjusted its forecast to around 4-5.5%. Clearly, the new era is expected to bring in significant economic benefits. However, the anticipated welfare is not much visible as yet. Economic benefits do not tend to spread evenly in state-led economies, and international companies are still proceeding with caution.

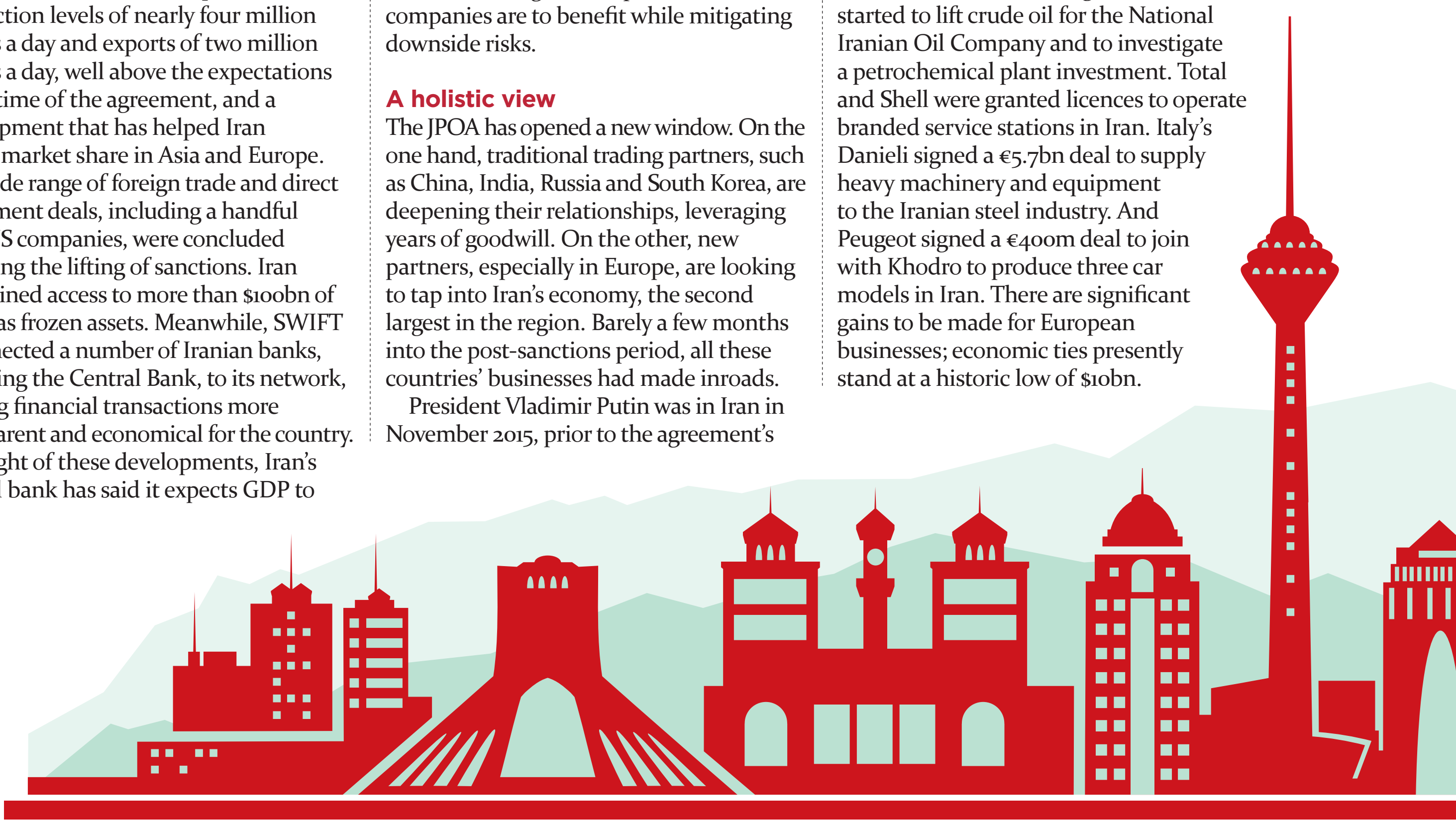
Corporate treasurers required to operate in this environment will have clear sight of the market potential, but no straightforward answers to help them navigate Iran's commercial landscape. They will need to take a holistic view and demonstrate significant patience if their companies are to benefit while mitigating downside risks.

## A holistic view

The JPOA has opened a new window. On the one hand, traditional trading partners, such as China, India, Russia and South Korea, are deepening their relationships, leveraging years of goodwill. On the other, new partners, especially in Europe, are looking to tap into Iran's economy, the second largest in the region. Barely a few months into the post-sanctions period, all these countries' businesses had made inroads.

President Vladimir Putin was in Iran in November 2015, prior to the agreement's implementation, not only to develop $2bn worth of economic ties, but to investigate a new free-trade zone dialogue. The post-sanctions agreement period started off ambitiously with president Xi Jinping's visit, paving the way to a tenfold increase in bilateral economic relationships to $600bn over a decade. Following China's 'one belt, one road' visit, Iran's president, Hassan Rouhani, made progress in Europe, and inked a number of deals – most notably the €22bn Airbus deal, bringing Iran into the international civil aviation community.

At the same time, Saipem was contracted to restore the Pars Shiraz and Tabriz oil refineries for €3.5bn; both are essential to Iran's oil and gas sector. Total started to lift crude oil for the National Iranian Oil Company and to investigate a petrochemical plant investment. Total and Shell were granted licences to operate branded service stations in Iran. Italy's Danieli signed a €5.7bn deal to supply heavy machinery and equipment to the Iranian steel industry. And Peugeot signed a €400m deal to join with Khodro to produce three car models in Iran. There are significant gains to be made for European businesses; economic ties presently stand at a historic low of $10bn.



South Korea's president, Park Geun-hye, and Indian president Narendra Modi's visits coincided in May, and both were declared successful. South Korea intensified the recently eased economic relationships threefold to $18bn from $6bn, and India signed up to spend $500m to develop the geopolitically important Chabahar port.

And while ties with the US will remain challenging, Boeing and General Electric are scoping out deals.

### A thorough analysis

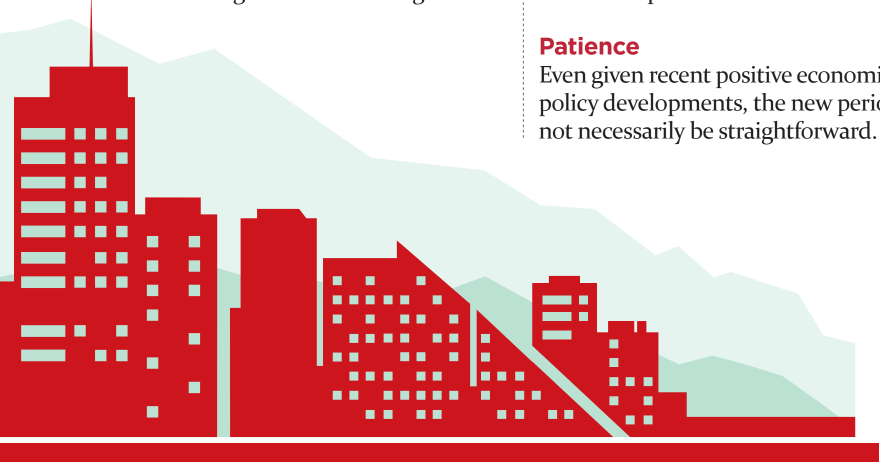
When it comes to doing business in challenging territories, unemployment, underemployment and energy price shocks lead the list of top economic risks in the World Economic Forum's *Global Risks Report 2016*. Those are followed by the failure of national governance, fiscal crises, asset bubbles and cyberattacks. The Middle East region reflects similar patterns to the rest of the world, along with terrorist attacks and interstate conflict. Iran is no exception. The global risks are beyond the scope of corporate treasurers; however, they still need to ensure business growth, and continuity in the face of downside risks related to the JPOA, as well as country-specific challenges.

## The global risks are beyond the scope of corporate treasurers: however, they still need to ensure business growth and continuity

At present, Iran ranks 118th out of 189 in the World Bank's Ease of Doing Business index. Current regulations do not necessarily facilitate business. There is also room for more transparency; Iran ranks 130th out of 163 in Transparency International's latest report. And, Iran's overall infrastructure is ranked as average in the recent Logistics Performance Index – 96th out of 160, highlighting crucial need for improvement. Recent economic and policy developments around developing a diversified economy, progressing in science and technology, and promoting cultural excellence are helping to improve Iran's standing in these areas. Even so, doing business in Iran still remains a very complex and ambiguous task for corporate treasurers.

Businesses need to stay conscious of remaining sanctions and specially designated entities. The US dollar market is not accessible, but euro trade is, so businesses require an appropriate channel, depending on underlying base currency, to manage payments and collections. The global banking system, especially in Europe, is unclear on how to manage transactions allowed by the JPOA. Banks prefer to be reactive and impose enhanced due diligence for any corporate asking about payments and collection. Added to which corporate treasurers will need to manage regular business risks, such as credit, compliance, legal and political risks.

To operate effectively, corporate treasurers must prepare well-defined strategic plans. That should include comprehensive compliance details as well as risk and reputation assessments, exhaustive corporate intelligence, information on access to banking and FX, risk management and business continuity planning. Ongoing monitoring will also be essential to help treasurers navigate the evolving economic and political dynamics in the new period in Iran.



SHUTTERSTOCK

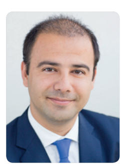
### Patience

Even given recent positive economic and policy developments, the new period will not necessarily be straightforward.

- There may be adverse reaction to strengthening ties between Iran and the rest of the world, perhaps even to the extent of one of the JPOA parties ceasing to perform its commitments under the agreement.
- While the oil and gas sector has seen immediate benefits, until more certainty and trust is generated, foreign trade and direct investment ties are likely to develop more slowly with sectors such as the automotive industry, airlines, pharmaceuticals, retail and banking.
- Iran's ability to capitalise on the new period also depends on its ability to continue structural economic and policy reforms. The latest efforts score well in improving doing business in Iran. However, the progress is gradual, and might fall short of corporate treasurers' expectations.
- While the financial sector's reconnection to the international financial system will help the sector to reduce transaction costs and bring in up-to-date technology and expertise, many international banks remain ambivalent when it comes to reconnecting with the Iranian banking system. Progress is likely to be slow, with limited options for straight-through banking services onshore.
- International companies, especially retailers, stand to benefit from Iran's acknowledged market potential. However, the expected harvest might take longer as the welfare does not uniformly and efficiently spread, and long-outstanding local brand associations do not break hurriedly.

### Outlook

The post-sanctions period unquestionably presents a powerful commercial and financial proposition for international companies. Some are already reaping rewards from signing deals early. However, the road to successfully unlocking those propositions will be uncomfortable. A long-term view, thorough analysis and a significant degree of patience are essential for corporate treasurers seeking to manage this balancing act.



**Semih Ozkan** is an ACT student (CertITM) and a transaction banking professional in an international bank

SIMPLE PRODUCTS, PREMIUM ON PRICE AND EXECUTION, CYBERSECURITY... THE PRIORITIES OF CORPORATE TREASURERS HAVE SHIFTED. BANKS ARE EXPECTED TO EVOLVE THEIR SERVICE MODELS ACCORDINGLY. THIS CAN BE ACHIEVED BY INTENSIFYING THEIR COLLABORATION WITH CLIENTS, SAYS VIKTOR IVANOV

# EVOLVING EXPECTATIONS

GRUNDINI/IKON IMAGES

Entrusted with ever-expanding responsibilities by their companies, corporate treasurers are increasingly looking for simple, predictable solutions when it comes to transaction banking.

That is one central finding of this year's *Corporate Treasury Insights* report, published jointly by BNP Paribas and The Boston Consulting Group (BCG).

Based on a survey of 750 corporate treasurers and CFOs globally, the report showed that corporate treasurers have a growing and diverse range of issues to tackle, among which market and counterparty risk, regulatory changes, cybersecurity and fraud rank high on the list.

Accordingly, less time is left available to spend on managing operational complexity. Today, corporate treasurers are clearly less interested in product enhancements than they are in reliable solutions backed by excellent execution. "We are old-fashioned and traditional in the products we use," said one executive. "We focus on keeping things simple."

At the same time, the survey showed that new entrants, such as fintechs and other digital players, are creating space for greater disintermediation, while the increasing adoption of bank-agnostic platforms is further commoditising some core bank offerings.

These findings suggest that corporate treasurers now have new expectations towards their transaction banking partners. To remain relevant, banks will have to work in a different way and engage in a genuine collaboration with their clients in several key areas.

## Client experience

Opportunities will open up for banks that can deliver simplicity, cost-effectiveness and an excellent customer experience.

Most treasurers in the survey remain frustrated by overly complex banking processes. They want banks not only to go further in simplifying and automating existing tasks, but also to redesign core treasury activities in order to make the end-user experience fast and convenient. With digital technologies developing at a breathtaking pace, those banks that will ignore this expectation will rapidly be put out of the game.

## New practices emerging

Whereas in the past banks have tended to rely on in-house teams to define product specifications and design the underlying processes, they are now compelled to embrace a collaborative approach from the start.

Some of the leading banks have resolutely engaged in co-developing products and services with the clients. This means teaming up from the onset with corporates and technology partners to originate ideas and produce solutions that clients will want to use. This means also having the concept tested by real-life users from the early prototype stage all the way down to the final deliverable. If, at any stage, the clients are not convinced that they will adopt the product, it is certainly time to go back to the drawing board.

In our era of ever-accelerating change driven by the digital revolution, co-development will stand as a critical tool to identify and deploy services with added value that is 'certified by clients' – services that will deliver a best-in-class user experience.

## Working capital and funding management

The 2016 edition of the report confirmed the lasting attractiveness of working capital financing solutions, especially with respect to supplier and receivable financing offerings, which nearly 70% of the corporate treasurers said to have used in the past two years.

In the Middle East, our client-facing teams have been witnessing a tremendous interest for such solutions. In the context of softer demand and scarcer liquidity, corporate treasurers and CFOs from regional groups and multinational companies alike are giving a closer look at their cash-conversion cycle, searching for ways to reduce the cash trapped in their supply chain processes.

Working capital optimisation is a typical area where collaborative work between the company and its bank is needed in order to achieve the best outcome. Experience shows that tailor-made solutions deliver far better and more durable results. To reach that stage, however, it has to be recognised very early in the process that numerous stakeholders within a corporation are involved in the working capital cycle, ranging from procurement to operations to sales or accounting. The alignment of their respective objectives and expectations is not necessarily a spontaneous process and this is where collaborative approach is needed.

**In our era of ever-accelerating change… co-development will stand as a critical tool**

## Cybersecurity and fraud

One of the key issues keeping treasurers up at night is the growing risk of cyberattacks and fraudulent payments. Numerous recent cases have indeed amply demonstrated how frighteningly serious these threats have become. Not surprisingly, authorities and regulators from Bahrain, Qatar, Saudi Arabia, the United Arab Emirates and elsewhere in the Middle East have taken proactive steps to address cybersecurity, adopting new standards and regulations.

Yet, the BNP Paribas/BCG survey showed that the prevention of such risks remains underinvested by treasury teams that commonly feel ill-equipped to intervene and often delegate the issue to the IT department.

Externally, treasurers tend to still heavily rely on the security mechanisms embedded in their banking platforms. Banks are considered to be the gold standard when it comes to IT system quality, given the high security thresholds they require for their own operations. More than half the respondents said that banks are their preferred provider for traditional mitigation measures, such as transaction and network traffic monitoring mechanisms.

This opens a potential new area of collaboration with treasurers who would gladly use the expertise and advice from their banks to help reinforce the security of their companies. It is now up to the banks to respond to these expectations.

The *Corporate Treasury Insights 2016* report outlines a number of other areas where the banks can meet the sophisticated and evolving needs of their treasury clients through greater collaboration. In the end, it will be all about security and client experience.

**TREASURERS ARE MORE CONCERNED WITH ECOSYSTEM COMPLEXITY, COMPLIANCE AND FUNDING THAN THEY WERE LAST YEAR**

| | CONTINUING TRENDS SINCE 2015 | EMERGING TRENDS FOR 2016 |
|---|---|---|
| **Treasury role** | • Expanding treasury mandate<br>• Centralisation of strategic and operational decisions at a global level | • Growing ecosystem complexity (for example, hedging platforms, TMS, fintechs) |
| **Key treasury criteria** | • Selection based on price and service | • Renewed importance of capital and funding |
| **Treasury products** | • Preference for basic products, letter of credit and cash pooling | • Declining interest in bank payment obligations and dynamic discounts |
| **Treasury channels** | • Increasing use of multichannel | • Growing interest in mobile for accessing information and executing orders |
| **Key treasury concerns** | • Growing importance of cybersecurity risk (now considered as critical as traditional market and economic risks) | • Growing need to manage new compliance rules (for example, KYC) |
| **Value-added treasury services** | • Appetite for bank to serve as trusted adviser | • Declining interest in analytics given absence of tailored use cases<br>• Openness to the idea of blockchain, but solutions must mature |

SOURCE: BCG/BNP PARIBAS *CORPORATE TREASURY INSIGHTS* SURVEY, 2015, 2016

### About the report

*Corporate Treasury Insights 2016* report was based on a survey of 750 corporate treasurers and CFOs from organisations with annual revenues of more than $500m and was conducted by Expand Research, part of The Boston Consulting Group. As well as the survey, the researchers conducted interviews with 25 corporate treasurers and CFOs at multinationals.

The report can be found at www.bcgperspectives.com/content/articles/financial-institutions-corporate-treasury-insights-2016-security-client-experience/#chapter1

**Viktor Ivanov** is head of transaction banking CEEMEA at BNP Paribas

# Scarcity versus plenty

**AT A SUPERFICIAL LEVEL, THERE IS AN OBVIOUS DISTINCTION BETWEEN CORPORATIONS THAT HAVE AMPLE LIQUIDITY AND THOSE THAT DO NOT. HOWEVER, AS JENNIFER DOHERTY EXPLAINS, WHEN IT COMES TO LIQUIDITY MANAGEMENT, BOTH GROUPS ARE CURRENTLY CONFRONTING SIMILAR CHALLENGES**

The most recent Kyriba/ACT survey[1] underlines the continuing importance of cash and liquidity management, with most respondents citing it as one of their top three priorities for the year ahead. Furthermore, the environment in which they need to deliver on this priority is demanding. Regulatory changes, such as Basel III, have impacted certain liquidity management techniques and changed the way in which bank deposits are compensated, while negative central bank deposit rates in certain locations[2] are pressurising returns more generally.

In addition, changes in technology are driving a shift towards real-time liquidity management, while corporate investment policies have continued to grow in complexity. Fortunately, some solution providers have anticipated these challenges and already have the capabilities in place to help corporate treasuries address them.

## Scarcity: maximising cash accessibility

Corporations that are not cash-rich require solutions that help them to improve the visibility of their cash and then to consolidate and optimise it. This is an area where notional pooling has been a popular and effective tool, but this is becoming less available as a result of Basel III.

The reduced availability of notional pooling has driven increased interest in cash concentration, but the underlying challenges of managing the resulting intercompany loans still need to be addressed. This is particularly germane to jurisdictions such as China, where efficient intercompany loan management is critical for effective renminbi cash concentration.

Therefore, intercompany loan management solutions have needed more sophisticated capabilities, such as automated loan limit management. This needs to allow visibility and control both bilaterally between accounts, as well as multilaterally across the entire structure if it is to help avoid any issues relating to thin capitalisation rules.

## Plenty: risk, return and efficiency

Regulation also has liquidity management implications for cash-rich companies. Under Basel III, banks have a preference for more stable funding, which is prompting them to offer products that incentivise the placing of longer-term cash, subject to advance notice of withdrawal. As a result, some treasuries are making their 'bucketing' of cash by timeline more granular to reflect the notice they need to give on these deposits. Those treasuries

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seeking liquidity as well as security need to consider whether leaving cash in an operating or instant access savings account satisfies those requirements. Those that have yield as a priority may opt for an evergreen-style notice account or money market funds.

This range of possibilities, coupled with a changing environment and treasuries' typically low headcount, is driving the emergence of solutions that can automate the investment side of the liquidity management process. Treasuries can use these to define the allocation rules for liquidity in accordance with corporate investment policy based upon balance trigger levels. Cash above a user-defined account balance trigger level is automatically allocated across appropriate investment instruments and is automatically redeemed from those instruments, should the client operating account drop below client-defined cash levels.

This gives treasuries far more granularity and control in distributing cash in accordance with investment policy, as well as significantly improving efficiency through automation. It also confers the important additional benefits of enhanced risk management and transparency. Operational risk in treasury is to some extent mitigated, but so also is overall risk management from an exposure perspective. In addition, associated reporting capabilities make it straightforward to demonstrate to the CFO and board that all activity is in accordance with corporate investment policy. This is particularly pertinent given the increasing complexity of such policies (and the associated monitoring requirements) in the wake of the events of 2008.

## Technology

Technology-related liquidity challenges currently come from several directions. Certain markets and payment platforms are already migrating their infrastructure from batch-based processing to a real-time environment. This means that treasury increasingly needs to manage cash and liquidity dynamically, rather than on an end-of-day basis. In addition, given the growing number of payment methods now available to corporates' end customers, there is also the need to consolidate and deploy information and cash across a growing number of channels.

While the technology solutions to achieve this may be available, many corporate treasuries do not have the resources to deploy and integrate these with existing enterprise resource planning systems or treasury management technology. This often means that they look to their banks for assistance with integrating solutions for new payment and information channels, which has led to the evolution of bank integration teams that include qualified technology specialists.

## Integration and centralisation

In the current environment, there is growing appreciation within treasuries of the value that can be added by combining cash management and liquidity with one provider. For instance, the definition of an operational deposit under Basel III means that there must be operational activity against the cash on deposit for it to be valid (and valued) as an operational deposit. Therefore, if a treasury gives transaction business to one bank and only excess liquidity to another, the second bank will not receive the funding benefit of the operational account – with consequences for the interest rate it can offer.

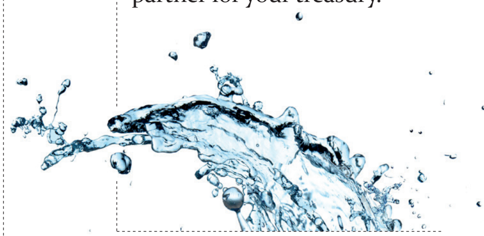
> It is vital to ensure that solutions and strategies adopted today will remain relevant in the future

In addition, there has been a growing tendency for treasuries to purchase services on a more centralised basis in the interests of efficiency. This reduces the management overhead from the treasury's perspective, but also means that any prospective bank has to be able to deliver in a regionally or globally homogenous manner. This requires an extensive physical bank network, plus the ability to on-board business both efficiently and consistently, irrespective of location.

## Action, opportunity and the future

While the combination of regulation, low interest rates, technology changes and more complex investment policies poses significant liquidity management challenges, suitable solutions to address these are available. Nevertheless, the solutions chosen will depend on specific corporate circumstances, which necessitates an understanding of how corporate cash is distributed and its perceived market value across the various available instruments. Companies that are not cash-rich face a similar need to understand their current position, which will inform any decisions, such as whether to (re)visit cash concentration.

Future-proofing is another important consideration. The liquidity management environment has changed substantially in the past five years and may change as much, or more, over the next five. Therefore, it is vital to ensure that solutions and strategies adopted today will remain relevant in the future. That necessitates closely examining each solution offered. Is it future-proof? Is the solution provider already planning the next iteration? And is their solution structured to ensure a smooth transition? If the answer to these questions is yes, then you may have just found the right liquidity management partner for your treasury.



**Jennifer Doherty is global head of commercialisation, liquidity and investment solutions, global liquidity and cash management at HSBC**

HSBC

**1.** Kyriba/ACT 2016 Treasury Survey: *Prioritise Technology to Support the Treasurer's Expanding Role*; www.treasurers.org/kyriba/2016
**2.** https://www.bloomberg.com/quicktake/negative-interest-rates

# TECH PROWESS

TECHNOLOGY IS ADVANCING AT A RAPID PACE AND PUTTING TREASURY AT THE HEART OF THE BUSINESS, WRITES EMRE KARTER

In recent years, there has been a significant increase in the pace of adoption of new technology in the Middle East. Having historically lagged many other regions in the use of technology, some countries in the Middle East have been able to leapfrog developed countries by implementing new sophisticated solutions, both within treasury, across the organisation and – in some countries – in financial markets and payment systems.

The change is coming about for a variety of reasons. Regionally, geopolitical instability has increased, while oil prices have fallen significantly, affecting local economies. As a result, many corporates are increasingly focusing on global growth opportunities. Companies in emerging markets are expanding worldwide, benefiting from increased south-south flows from an investment and trade point of view. Consequently, it is no longer just multinational companies active in the Middle East that want access to the latest technology.

For treasurers in the Middle East, increasing enthusiasm for technology within companies is welcome. For years, many treasurers have faced challenges securing funds for technology investment. Now, however, the role of treasury within the organisation has broadened considerably – beyond traditional activities such as FX and cash management. Accordingly, treasury has gained new allies in its effort to create efficiencies and secure resources for technology investment.

The role of the treasurer now also encompasses ensuring best-in-class processes in both the 'order to cash', as well as 'procure to pay' cycles. Treasury is required to have 100% visibility and predictability of cash flows – technology being the cornerstone to facilitate this.

In many companies, treasury now also acts as a critical connection between a variety of functions, including risk, compliance, regulatory, procurement, shared service centres and commercial divisions. These stakeholders recognise that treasury is uniquely positioned to evaluate various technologies. Treasury is therefore expected to coordinate and provide leadership in sourcing technology that can improve efficiency and lower costs across the organisation.

Treasury's role is further strengthened because many of the technologies that offer the greatest gains across the organisation have an important treasury component. In contrast, digital solutions for human resources, for example, often only benefit that department. As treasury is responsible for managing relationships with banks or other third parties that provide treasury solutions, such as fintech companies, it is well placed to take a holistic view of the technology needs of the organisation.

## Treasury's relevance

The imperative to support global sales growth has highlighted a number of treasury capabilities and strengths.

For example, as companies expand into new markets, counterparty and other risk management issues become more critical for the business, given the need to establish new relationships with buyers and suppliers. Similarly, expansion requires investment and increases the relative importance of working capital management. By deploying working capital solutions, such as supply chain finance, accounts receivable finance and card solutions, for example, companies can

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increase free cash flow that can be used to self-fund, reducing reliance on external sources of funding, such as banks and capital markets. The case for supply chain finance and card solutions becomes all the more compelling, as these can be treated as trade payables and, as such, considered non-debt items of the company's balance sheet.

As corporates grow, effective volume management becomes more critical. Moreover, e-channels are gaining increased prominence for many companies, often generating as much as 10% of sales. Companies expect this volume to double in the coming years. As a result, various stakeholders across the organisation need confidence that e-channels are robust and secure.

Another aspect of growth is through M&As. The treasurer is engaged during the due-diligence phase, and an important aspect of this diligence includes existing technology and bank relationship processes, and policies of the target company.

Global growth inevitably creates greater complexity and has the potential to reduce efficiency. Treasury has a key role in driving efficiency by integrating new solutions with existing enterprise resource planning (ERP) systems and aligning ERP systems globally to as great an extent as possible. The treasurer plays a critical role in evaluating and selecting the appropriate communication, security and format channel to integrate with banks. It is perhaps no surprise that the increasing use of XML file formats and host-to-host connectivity is rapidly increasing in the Middle East region.

Similarly, as trade flows increase, the rationale for digitisation – to eliminate paper-based manual tasks – becomes stronger. Citi recognises these trends and is working with clients to reduce paper and manual workflows, and leverage digitisation.

## The imperative to support global sales growth has highlighted a number of treasury capabilities and strengths

### Focusing on fundamentals

The speed of technological breakthroughs across a wide range of areas is unprecedented. New financial solutions emerge on an almost daily basis from a wider variety of market participants than in the past.

It is important to monitor emerging technologies that could have important future applications – such as the use of blockchain technology for payments. However, given corporates' finite investment budgets, treasury's focus must be on technology that addresses fundamental functions and increases visibility and control in the near term.

While corporate governance may seem a workaday issue, establishing and maintaining it is critical to operations, especially when expanding into new markets. Unless treasury can rely on the information it receives at the centre, it cannot determine the most effective treasury structure or even ensure that basic tasks, such as cash-flow forecasting, are accurate and comprehensive in scope.

Similarly, basic treasury competencies, such as data analytics, ERP and treasury management system integration and the provision of real-time data, can deliver outsized benefits both to treasury and the broader organisation. The use of real-time data and data analytics, for example, can help to streamline operations and lower costs, enabling the business to become more efficient at a time when lower energy prices have depressed regional economic activity.

### Addressing high-profile risks

The profile of cybercrime, defined as an attempt to access or damage a computer network or system to steal data or money, has increased dramatically in recent years. A number of household-name companies have seen their customers' details posted online – or auctioned off to other criminals – while recent high-profile and large-value breaches in the global payments network have reinforced the urgent need for cybercrime prevention strategies. The treasurer will play a critical role in driving this strategy.

As e-channels play an increasing role in sales – and corporates use new technology to work with a range of banks and fintech providers – counterparty risk management associated with cybersecurity will become more important: one cyber event can potentially wipe out a quarter's earnings. Given the rapid pace of technological change, it is more important than ever to work with trusted advisers to safeguard and future-proof what is now a core part of many companies' sales activities.

Stakeholders across the organisation, including procurement and operations, need support to prevent high-profile cybercrime events. Banks have extensive experience of managing cyberthreats, given their huge financial flows. As the organisation's conduit to banks, treasury is therefore best positioned to work with stakeholders to implement and maintain effective cybersecurity measures.

### Creating a cross-function multi-year blueprint

Treasury's new broader role within corporates across the Middle East brings with it considerable responsibility. To ensure that the technology needs of the entire organisation are met in a fair and effective way, treasury needs to work with the CEO, CFO other board members and all relevant stakeholders to develop a cross-function multi-year blueprint for technology investment. By facilitating collaboration across the organisation, it is often possible to leverage investments and deliver benefits to a wider range of stakeholders than previously anticipated.

Fortunately, treasury has the option of finding assistance when it comes to developing a technology plan: a partnership with a bank is helpful to assist companies select solutions that deliver the greatest benefit to the widest range of stakeholders.

By working with a bank that has proven its commitment to help clients achieve their efficiency, cost and flexibility objectives when it comes to implementing technological solutions, treasury can ensure the organisation's preparedness. Many of the challenges facing corporates – such as cybercrime or the need for accurate data – need to be addressed before they cause problems, not afterwards. Treasury, acting at the organisation's heart – can safeguard the business, manage flows effectively and champion innovation to support sales growth.

**Emre Karter is region head for treasury and trade solutions for the Middle East, North Africa, Pakistan and Turkey, at Citi**

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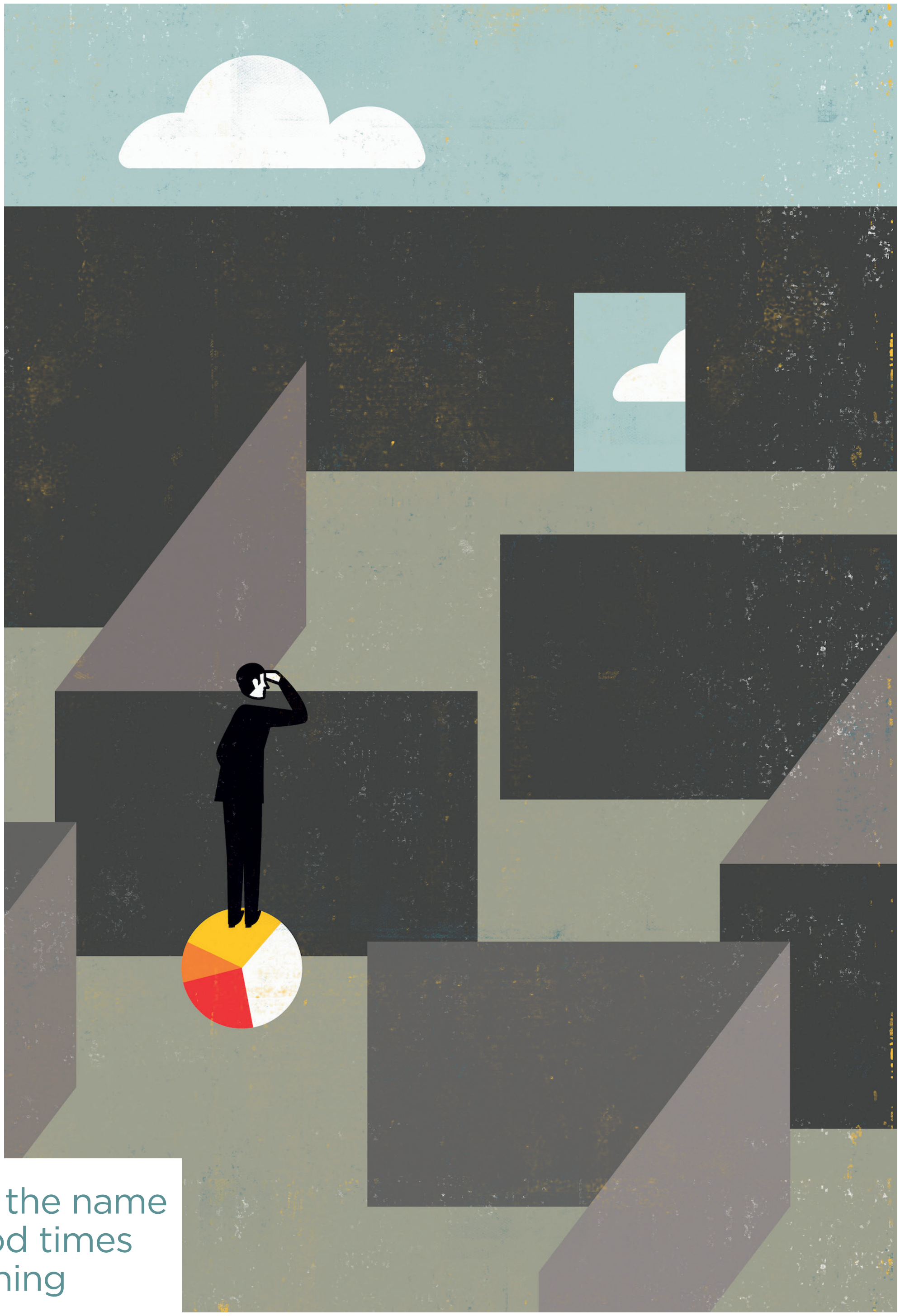
# A BIRD'S-EYE VIEW

AS GLOBAL CURRENCY AND COMMODITY MARKET VOLATILITY SHOW NO SIGN OF EASING, MARK O'TOOLE EXPLAINS WHY NOW IS THE TIME FOR CFOs ACROSS THE MIDDLE EAST TO ATTAIN THAT ALL-IMPORTANT HOLISTIC APPROACH TO RISK

From one extreme to the other – this is perhaps the best way to sum up the economic climate across the Middle East in recent times. In the good years, you could not move for corporates splashing the cash on the latest technology to advance their businesses. Cash-rich, better margins and a lower cost base – the life of a CFO was almost 'comfortable'. But how times have changed. From big reductions in liquidity to increased credit risk and far greater exposures to volatile currencies, the CFO now lives in an entirely different world.

This wider geopolitical and macroeconomic volatility has, as you might expect, had a significant part to play in all this. Over the past six months, Middle Eastern currencies, many of which are pegged to the dollar, have seen dramatic swings. The challenge is that for corporates, particularly those transporting high volumes of products from the region, these swings have increased the level of risk, which then feeds into their day-to-day operations. On top of this, vast swathes of the United Arab Emirates have had educational grants removed – which has driven expats to leave the country for pastures new. In turn, this has reduced the number of skilled workers and, ultimately, hit the CFO, who now has to factor in managing operational risk as a fundamental part of the decision-making process.

All in all, volatility appears to be the name of the game, as the good times show little sign of returning. So, with this in mind, what does this macro uncertainty mean for Middle Eastern CFOs and group treasurers, and how exactly do they go about managing commodity and currency risk across the business?



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Volatility appears to be the name of the game, as the good times show little sign of returning

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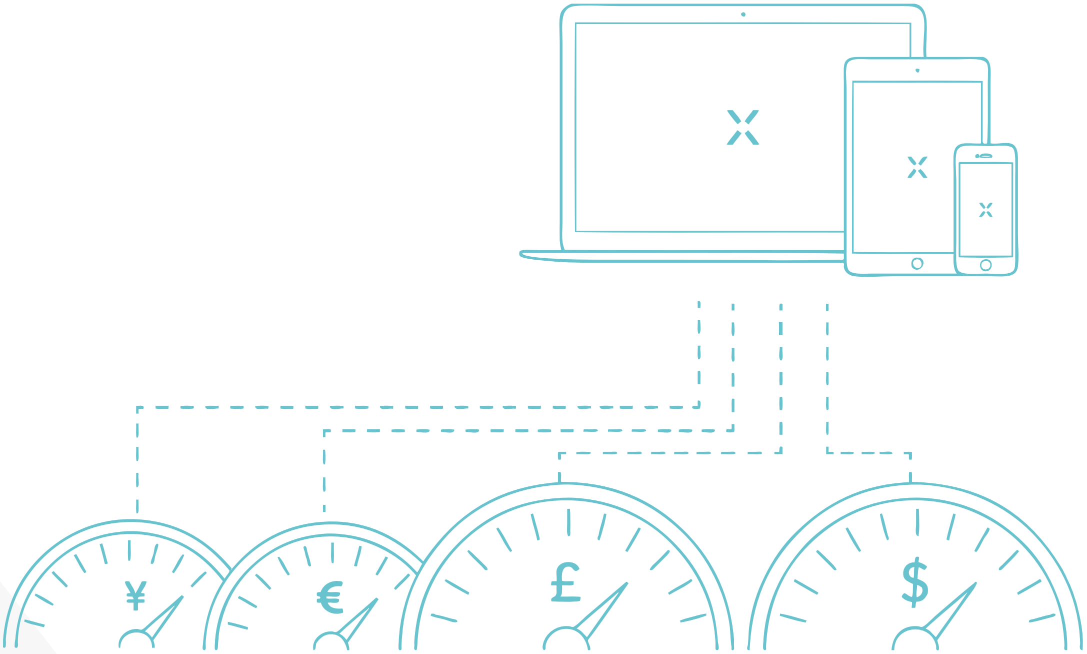


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### The need for a bird's-eye view of the world

Just as markets are getting more volatile, globalisation continues apace. We live in an ever smaller, more interconnected world. The proportion of corporates that are exposed to significant levels of commodity and currency risk across their businesses is far higher than it used to be.

The challenge also applies to a broader number of sectors than before. Certain sectors have always had to deal with large levels of commodity and currency risk – think airlines and their exposure to fluctuations in the price of fuel. But there are now few industries around where medium-to-large businesses within that sector – and even many small businesses – are not exposed to significant commodity and currency risk somewhere in their organisation.

Manufacturers and food and drinks companies, for instance, are growing increasingly aware of the impact of commodity volatility on their input costs. Retailers, increasingly dependent on imports and also doing far more international business thanks to the rise of the online consumer culture, are also waking up to smell the coffee. Sectors that didn't have to worry about this risk so much in the past are now having to change their view as supply and distribution chains become increasingly complex and multinational.

Historically, management of these twin risks has fallen on a spectrum from less to more sophisticated. Firstly, there are now Middle Eastern companies on the extreme unsophisticated end of the spectrum that don't do anything to manage the risk at all. Secondly, there are companies that rely on often disparate, often manual, and somewhat ad hoc systems, usually based around a bit of spreadsheet wizardry. A lot of corporates out there fall into these two categories, especially those in sectors that haven't had to worry too much about this risk historically. Over on the more sophisticated end of the spectrum are companies where the group treasurer handles currency risk via financial hedging on central treasury management systems, and procurement handles commodity risk, generally through the brute method of locking in volumes and prices over long-term horizons.

## The CFO needs to have a bird's-eye view of commodity and currency risk

### What road should the CFO go down?

This mix of approaches may have worked for various companies in the more predictable, less globalised climes of the past. But the current environment – marked by intense volatility – is pushing these old approaches, even the more sophisticated ones, to the limit. The level of risk is now such that this is no longer just a challenge for the group treasurer – it is a problem to be managed at CFO level. Wild price fluctuations can create real accounting and forecasting difficulties, and hamper the CFO's ability to manage business risk more generally. Better management of these risks is becoming ever more crucial to the age-old chief mission of the CFO: to reduce bottom-line costs and increase top-line returns. There is also, of course, the fact that price fluctuations of this sort, poorly managed, can cause swings in a corporate's share price – something that is bound to get the board's attention.

The fact that this is now very much a CFO-level challenge highlights the fundamental problem with all of the traditional approaches. It goes without saying that many companies relying on a maze of error-prone spreadsheets (or nothing at all) should consider the benefits of moving to an automated system, both to better manage risk and also save money and resources.

But even the companies with sophisticated group treasury teams out there that are using central systems tend to deal with commodity and currency risk separately and in a siloed fashion, via different departments. Treasury does currency, procurement takes commodities, and never the twain shall meet. In an environment where commodity *and* currency risk are not only heightened, but more interwoven than ever before, this cannot suffice.

The CFO needs to have a bird's-eye view of commodity and currency risk: a single, holistic, transparent approach to commodity and currency risk across the whole of the business. After all, currency risk can be embedded into a physical commodity risk, exposing the balance sheet and income statement at any time. If the currency and commodity risks are being calculated alone and never put together, how is a CFO going to know with accuracy if a business is over- or under-hedged at any given time? This also fits with a major pressure facing CFOs at the moment more generally – the need to reduce capital expenditure and rationalise systems as far as possible.

Luckily, given the volatile times we live in, technology has developed to a point where there are sophisticated, cost-effective systems out there that can achieve precisely this single, enterprise-wide view of currency and commodity risk, and in real time. In addition to all the logistical and vendor-cost-related savings that come from having a single system (as well as the reduction in man-hours and error rates for those relying on spreadsheets), these platforms allow treasury and procurement teams to communicate and share information seamlessly and automatically. They support and provide help with financial hedging, should that be appropriate for the business, and provide the CFO with enough joined-up data to be able to make better decisions faster, in response to market volatility.

Once upon a time, such a system would be a nice-to-have for many CFOs across the Middle East. But today, a CFO without full insight into their company's exposure to volatile markets is putting its value and reputation at risk. In times such as these, investing in such a system can be a powerful way to make a dent in costs, improve margins and gain an edge over competitors. In the volatile world of the blind, the one-eyed CFO is king.

**Mark O'Toole is vice president of commodities & treasury solutions at OpenLink**

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# Seeking future perfect

### *MIDDLE EAST TREASURER* LOOKS AT HOW AVG TECHNOLOGIES' TREASURY FUNCTION TOOK CONTROL OF CASH-FLOW FORECASTING

AVG Technologies is a Dutch-based online security company that provides leading software and services to secure devices, data and people. The company has close to 200 million active users across its internet security, performance optimisation, personal privacy and identity-protection solutions.

Over its 20-year history, AVG has reached some significant landmarks. Its revenue for 2015 was $248m, with an operating income of $75m and a cash-conversion rate of 20%. Listed on the New York Stock Exchange since 2012 and with 26 active legal entities worldwide, the company has credit facilities of $280m and its treasury function manages more than 100 bank accounts and operates across 13 currencies. Centralised in Amsterdam, the Netherlands, treasury at AVG has two employees.

In common with many organisations that experience rapid growth, AVG's treasury function has assumed real significance within the company. "As a result of increased financial transactions and risk exposure, AVG decided to implement a dedicated treasury management solution," says Maurice Fischer, corporate treasury manager at AVG. Treasury management system (TMS) implementation has, he says, been instrumental in enhancing process efficiency and adding a greater degree of control.

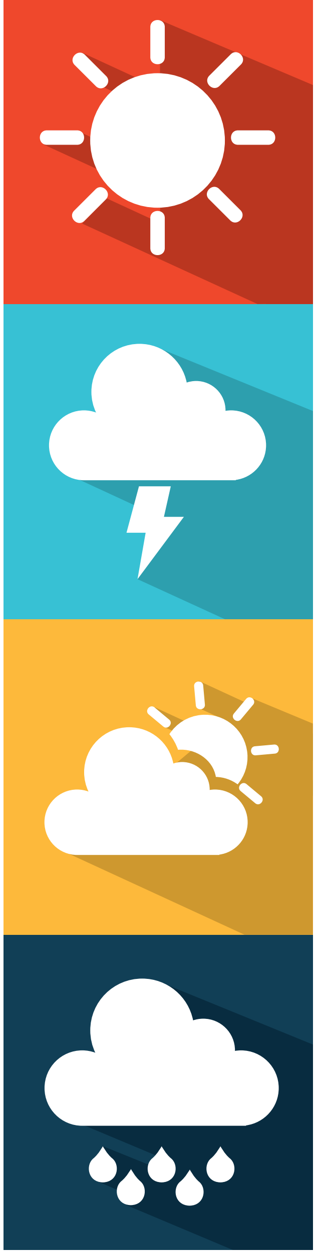
## Familiar challenges

Security-conscious AVG Technologies was previously hampered by manual, error-prone processes, time inefficiencies and a lack of transparency. All treasury-related activities, deals and cash-flow updates were recorded in spreadsheets, which took longer than necessary to compile – increasing the risk of delayed settlement of payments. Additionally, the set-up lacked auditability, compliance and security.

Management reporting for cash position, cash flows, exposures, loans, investments, guarantees, intercompany netting and bank account access were all collated manually. Ultimately, the operational risk became too high for those held accountable.

## Defining the objectives

In 2014, Fischer decided it was time to invest in a TMS and set out the key business



objectives and system requirements that would need to be met, including: enhancing the efficiency and the value of the treasury function; reducing time spent on cash management and other operational treasury activities; creating a treasury entity that acts as an in-house bank and leader of cash management structures within the organisation; and facilitating cash management and cash-flow-forecasting KPIs.

Other key business objectives were: active management on FX and interest rate exposures; external debt management; enhanced management reporting; and treasury accounting via an interface between Kyriba and AVG's enterprise resource planning (ERP) system.

## Refining the cash-flow forecast

Following a rigorous selection process supported by an external local consultant, Orchard Finance, Kyriba's cloud-based TMS was selected because it best matched the required functionality and budget defined by AVG. The focus of the project, and of AVG's use of Kyriba to date, has very much been centred on perfecting cash-flow forecasting – an achievement that most treasurers will suggest still very much eludes them.

Eighteen months on, Fischer will admit that there can always be room for improvement, but his cash-flow forecasting is stronger, more accurate and more efficient than it's ever been.

"We are very pleased with the progress we've made over the past one and a half years," he says.

## What next?

Fischer's vision for expanding the use of TMS involves looking at extended reporting functionality, interfacing with the company's ERP for payments and receivables, a fully centralised payment factory and a robust hedging strategy.

## KEY SYSTEM REQUIREMENTS:

- Accuracy and reliability of data;
- Quality and flexibility of dashboards and reporting;
- Effective deal registration and follow-up tool;
- Accounting and valuations of treasury-related transactions to interface with ERP;
- Sarbanes-Oxley compliance and internal controls;
- User-friendly; and
- Easy to implement without extensive internal IT support (preferably software as a service).

**For more information on AVG Technologies, visit www.avg.com. Kyriba can be found at www.kyriba.com**

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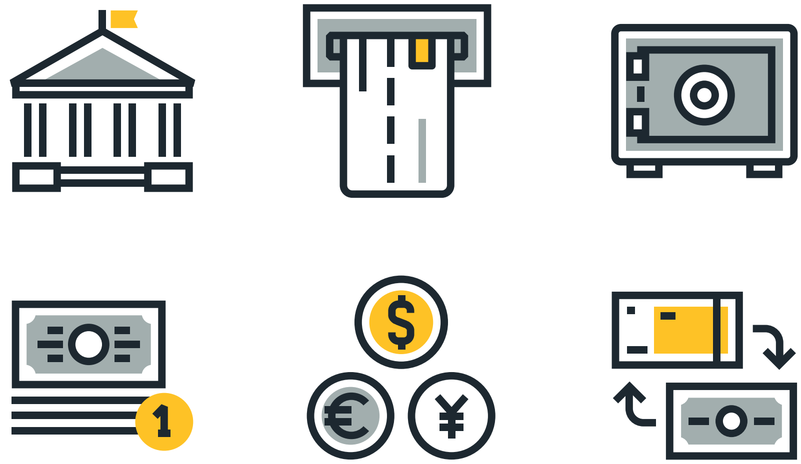
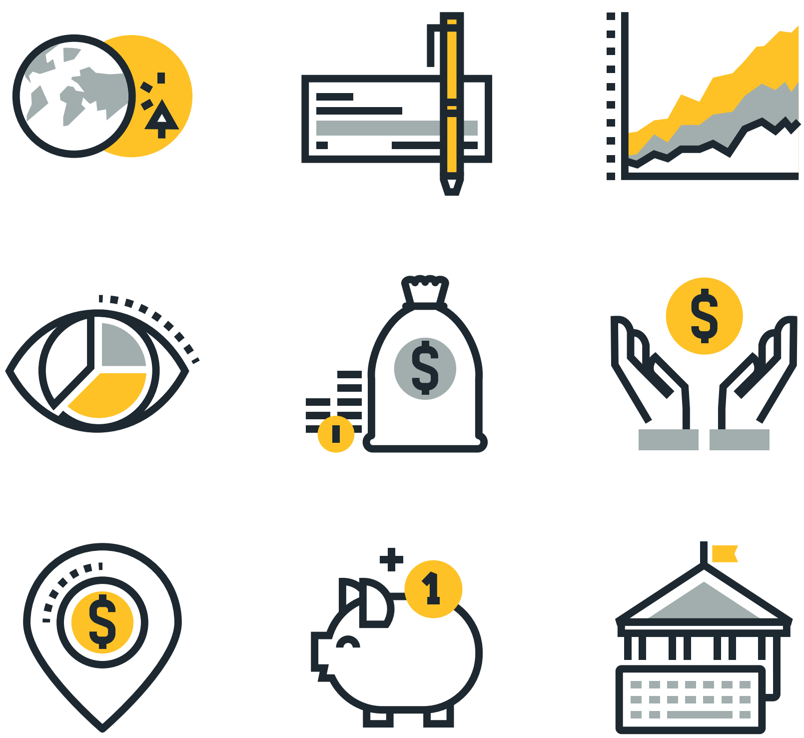


# BETTER TOGETHER

IN A COMPLEX REGULATORY ENVIRONMENT, COMPANIES AND THEIR PARTNERS ARE MORE INTERDEPENDENT THAN EVER BEFORE. VISHAL VIRMANI BELIEVES CORPORATES AND THEIR BANKS MUST RALLY TO SUPPORT A CHANGE AGENDA



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The banking industry has entered a new normal. The financial crisis of 2008 has changed the game and, in the world of new regulation, banks have realised that they need to take a more active role in developing and defining the funding profiles of corporates to support them on the path to sustainable growth.

First, let's talk about what has happened. Changing regulatory needs and liquidity requirements have significantly adjusted the way banks lend money and who they lend it to. For corporates, this has seen management place greater importance on its treasury function and on ensuring it has the right financial structure in place. Greater levels of sophistication in business processes and practices have been incorporated in operating models, along with better-defined objectives. In addition, there has been an increase in investments towards enterprise resource planning (ERP) systems, treasury management system software and integration of these systems with banks, for the most part led by internal needs and organic growth.

As these changes have become the norm, the relationships between corporates and their banks have reached a new level of closeness, leading to more comprehensive and consultative discussions on how to create further improvements and generate new efficiencies. ERP investment and utilisation by corporates is no longer a new area of focus; it is now embedded practice and incorporated in budgeting processes and risk management activities. Banks, in turn, have moved on to standardised operating models across business units and across jurisdictions, with policies established to accelerate automation in client-transaction flows, to ensure greater straight-through processing rates and reduced human intervention.

> Changing regulatory needs and liquidity requirements have significantly adjusted the way banks lend money

### Rally cry

One of the greatest changes to result from this is the recognition by both sides of the importance of more expansive relationship management – one that is based on a range of services, including working capital; and a move away from one based predominantly on lending and product pricing. The banker has the ability to act as a strategic participant in the corporate treasury's evolutionary journey. The inclusion of working capital as an area of greater focus has brought the corporate treasurer and its cash management banker closer. The bank can share experience and expertise both from the position of knowing the organisation's transactional behaviour as well as understanding the dynamics of similar corporates. This way, the rally cry is sounded from two corners speaking the same language – where the bank better understands specific objectives of the corporate treasurer; and corporate treasurers appreciate the importance of cash management within a basket of services directed at their partner bank.

And so, as we move further into the new norm, how can corporates and banks partner to support a change agenda?

For starters, both sides need to accept that change will remain constant for the foreseeable future. This includes changes to infrastructure (at the corporate, the bank, regulatory and market) that controls transaction flows. Market dynamics, regulatory reporting, risk management practices, continuous system enhancements, modifications to banking products, launch of new services and ways of doing business are just some of the areas of frequent change. All of this has a direct impact on ways in which a treasurer operates and how a bank prioritises clients.

In the past, there was a singular focus by banks to price each product in isolation. Today, there is a move towards pricing based on the share of wallet based on a basket of services. Corporates now understand that banks measure client profitability by using a risk-adjusted return on capital model, where their profitability increases as the use of non-capital-intensive products, such as cash management, are added to the basket. This makes it imperative for treasurers and their relationship bankers to maintain regular dialogue on the topic of cash management, allowing the change agenda to be subconsciously prepared for.

The next important aspect of the partnership is to work together to regularly review each other's longer-term objectives and strategy. Most day-to-day relationships between a corporate treasury team and their bank's cash management team are focused on reactive service and periodic service reviews. This is a necessary short-term view. Corporates and banks in an obligatory, but non-binding, partnership have each other's vested interests at the heart of the relationship and, as such, the corporate and the bank must have regular discussions and informal updates on each other's strategy; sometimes even when still an early straw man concept. This allows the genuine advisory element of the relationship to come to the fore, right from the initial planning phase. Partnerships that manage this communication effectively are better prepared to effect change and have seen greater success in managing the change and transformation agenda to the benefit of all.

Corporate treasurers must agree, document and establish their precise long-term business objectives

## Successful integration

There is a high probability that in any treasury-transformation life cycle, an organisation will go through some form of complex integration with their bank. The most successful integration projects achieve the greatest success when the change agenda itself is planned ahead of the technical build. This may include activities where the bank is asked to introduce other clients as referral sources to the wider treasury and financial accounting teams of the corporate that is planning the next phase of their treasury evolution. Not only does this provide the organisation with first-hand information and experiences on challenges faced, but it also provides them with a template to work around possible activities, such as establishing milestones and project-governance models.

Another alternative is to conduct topic-based workshops attended by the corporate treasury and finance team and the bank's cash management team, comprising individuals from the front-line cash management advisory area, through to product specialists and back-office processing teams. Such referral introductions and workshops allow any treasury-transformation agenda to have your primary stakeholders provide input, intelligence and recommendations – and rally the support required to take forward the change programme.

## Blueprint

Finally, corporate treasurers must agree, document and establish their precise long-term business objectives. This should be the blueprint and a comprehensive description of banking products and services required by the organisation; as well as the relevance of these products to their business – including what, how, why and for how much. It usually forms the foundation on which corporate treasurers release their cash management request for proposal. In the corporate-bank partnership, it allows both sides to be best prepared for the evaluation and selection process, ensuring that this vital stage of the change process is transparent, consistent and provides the corporate with clearly articulated responses from the banks – incorporating appropriate solutions, with evidence of capability and experience.

However, even the best-laid plans can go awry. It is essential to be prepared for change. The smallest software upgrade can have as much of an impact on productivity and performance as the largest technology overhaul. Similarly, the tiniest change to an internal process can have as much of an influence on decision-making as a shift in market dynamics. In such situations, preparation and planning, with clear objectives, milestones and a link to a larger strategy, are essential. The most important thing for corporates is to keep your bank informed and work together to adapt the path to your treasury transformation.

Like any change journey, treasury transformation works best when key stakeholders are clearly identified and their support garnered. The partnership between the corporate treasurer and their cash management banker is no different. Their relationship is symbiotic in their daily activities, as well as the longer-term delivery of results.

The views expressed in this article represent those of the author and not necessarily those of the bank.

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# Embracing digitisation

**THE MIDDLE EAST HAS A RENEWED FOCUS ON DIGITISATION AND IS WELL PLACED TO SUCCESSFULLY HARNESS THE POTENTIAL OF NEW TECHNOLOGIES, SAYS NEENA PRAKASH**

Corporates and banks have come a long way in their journey towards digitisation. The transformation is being driven by clients who are more digitally aware, plus new fintech innovations from start-ups and banks. Banks are starting to offer their customers an end-to-end digital experience where customers can use their smartphones or tablets to do everything from opening a new account, submitting KYC documents, making payments and conducting trade transactions – all without visiting the bank.

Although the Middle East has been slower to migrate to new technologies historically, we are now seeing an increased investment and focus. Companies are keen to explore innovative solutions in order to achieve their business goals and sustainable growth. As late entrants, Middle Eastern banks and corporates can take advantage of the learning and experiences already gained in other parts of the world, allowing them to focus on those innovations that meet the specific requirements of corporates in the region and to address their pain points.

## Global technology trends in banking

Banks are also revisiting their legacy operating models as they continue to navigate complex regulatory requirements, looking for agility and technology expertise that will support their scale, security requirements and ability to comply with complex regulations. Banks have the option of either building these capabilities bottom-up or partnering with technology companies in order to meet the specific requirements of their customers.

One of the key trends emerging is blockchain technology, which is revolutionising the thought process around shared ledger management and smart contracts. A number of fintechs have built specific applications based on blockchain, such as real-time payment, transaction and FX settlement systems. The trade finance ecosystem – with its requirements to issue letters of credit, validate trade documents and support end-to-end tracking of goods – is being explored for use with smart contract applications. However, these systems are yet to mature into real-world applications.

Another prominent trend is the use of advanced analytics to deliver an array of highly personalised best-in-class financial solutions. Corporate customers seek banking partners capable of making banking processes easy, and capable of leveraging insights to enhance engagement, making it intelligent and simple. From the design of online and mobile banking apps to the digitisation of documentation, the customer wants their financial partner

> Although the Middle East has been slower to migrate to new technologies, we are now seeing an increased focus

to be integrated with their daily activities.

In addition, application programme interface (API) banking gateways are becoming relevant as a means to structure simplified services from a single provider.

## Corporate banking trends

The United Arab Emirates (UAE) historically has been a central trading hub, providing business-friendly processes and regulation. It is a diverse marketplace in terms of corporate cultures and values, ranging from family-owned local businesses to multinational companies. Uptake in the adoption of smart and digital technology in business has been increasing as corporates change their approach to customer engagement and as they explore automation as a means of achieving cost-efficiencies. Disruptive technologies are changing the role of corporate treasury, and regulatory imperatives are moving corporate banking strategy in new and unprecedented ways.

Traditionally, the main factors for choosing transaction banking partners have been costs and operational efficiency. However, in recent times, corporate treasury focus has changed, and price is no longer the key consideration for choosing a partnering bank. According to PwC's *Global Treasury Survey* this year, the corporate treasurer's priorities, when choosing a banking partner, include 'participation in credit and funding', 'quality of service' and 'banking capabilities'. Corporates are looking for service reliability, technological capability and the ability to provide an evolving range of products and services.

> Going digital has been a win-win situation for banks and corporates in the UAE as the economy diversifies

Added to these factors, workforce demographics are changing as millennials join the workforce in the Middle East. Many start-up companies and treasurers are tech-savvy and require banking partners that complement this culture with a digital framework for onboarding and digital account management.

Digitisation has led to the commoditisation of traditional services. In one manifestation of this, real-time connectivity and processing across the banking network has served to push down transactional costs between correspondent banks, a saving that can be passed on to corporates.

Blockchain allows value to be transferred without a central, controlling authority or a middleman to verify the transaction. Wholesale banking is heavily regulated and requires banks to provide both relationship banking and advisory services to clients. Considering the trading environment in the UAE, banks will focus on providing simplicity and transparency in their settlement services and transaction banking to corporates, similar to the way price-comparison sites work in online retail. In the Middle East, blockchain is currently in its hype phase; that is to say, being explored with full commitment from regulators, banks and corporates.

## Digital transformation in the UAE

Going digital has been a win-win situation for banks and corporates in the UAE as the economy diversifies. The UAE government is driving smart government initiatives aimed at delivering customer-centric services and building operational efficiencies within the economy.

For instance, a UAE smart government initiative to develop a single-payment gateway for government payments has transformed the existing payment method from cash to cards and digital payments. And the UAE Banks Federation has launched a mobile wallet project that will allow bank customers to make payments with their mobile phones through near-field technology. The UAE's banks are also actively moving towards digitising their end-to-end processes to enhance usability and to better meet customers' requirements.

## The road ahead – collaboration

Transforming customer experience is a difficult process and transitioning to a successful digital business requires clarity about the value drivers for the customer. Wholesale banking is investing in enhanced cash management capabilities, implementing real-time processing for trade and simplifying bank-to-corporate connectivity. Direct connected services, such as host-to-host and secure file transfer protocol and APIs, which provide real-time transaction processing to corporates, have become standard offerings.

However, successful adoption of new digitisation initiatives will require an enterprise-wide change and engagement from all stakeholders. Harnessing collaboration with internal and external partners, strengthening customer relationships and improving operational controls will ultimately result in a customer experience that delights at every level of interaction. Transaction banking is a relationship-driven business with a long life cycle, and so close cooperation with corporates will determine its ultimate success.

**Neena Prakash is vice president of transaction banking products at Emirates NBD**

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