

As globalisation continues, treasurers are thinking strategically about the way that they manage company cash. This has led them to demand more from their cash management banks as they look to drive efficiencies across their organisations and embrace innovative solutions. In this Talking Treasury Forum, seven leading bankers discuss the latest cash management trends, from virtual accounts to mobile technologies and SEPA.

Global cash management

Innovation and collaboration

Richard Parkinson (TT): What are the major trends you are seeing in corporate cash management today? Which areas are clients engaging with you on most frequently and why?

Vanessa Manning (RBS): We have been involved in a number of treasury transformation projects this year. Corporates are evaluating the impact of a variety of risk issues, SEPA and XML on their treasury centre projects and have continued focus on operational and standardisation efficiencies which can contribute to the bottom line. As such, major themes have been visibility and efficiency, together with standardisation and simplification in the way that corporates work with their banks, suppliers and customers, as well as internal stakeholders.

In terms of heightened risk awareness, corporates are also focusing on integration and consolidation from a treasury, finance, and enterprise-wide perspective, leaving behind the 'siloed' approach to ensure that they are 'future-proofed' in as much as possible, against market and partner/supplier uncertainties.

Mark Tweedie (Citi): The two main themes that we are seeing are globalisation and digitisation. There's a significant emphasis on network delivery for two reasons. Firstly, growth rates in the developed markets have been anaemic and are encouraging corporates to expand in high-growth economies such as China and India where Citi has a long-standing presence and local expertise. Additionally, banking institutions are focused on opportunities with emerging market champions.

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Elsewhere, digitisation is playing an increasingly significant role in treasury, with simplification and automation on both the payment processing and receivables side. This means that formats and connectivity channels have come under the spotlight and for clients, technology and global network capabilities have come to the fore.

Steven Victorin (J.P. Morgan): I would agree that treasury efficiency has been a key theme of late. What I find interesting coming out of the crisis, is that strategic decisions, such as those around electronic of processes and instruments have become part of the treasurer's responsibility. Four or five years ago, this was certainly not the case.

Having a forward-thinking, strategic view in treasury is particularly important for clients at the moment. This links back to Mark's point around the growth opportunities in the emerging markets and also picks up on a theme that Vanessa mentioned: integration. Given that most business units are focused on what's happening next Tuesday, when the treasurer is focused on a five year time horizon, there is often a disconnect between treasury and the rest of the business. Treasurers are therefore becoming increasingly aware of the need to identify and then communicate risks and opportunities across the organisation.

Michael Spiegel (Deutsche Bank): This is also true from a risk management perspective. In the supply chain space, for example, treasurers are no longer looking just at interest rate risk, counterparty risk or FX risk, but also at supplier risk from a business continuity perspective. So, it's actually more than an enterprise-wide view of risk – it's about an entire risk ecosystem.

On the globalisation front, many of the larger companies are also looking at risk management from a counterparty perspective, in particular with respect to their banking partners. So they are being much more critical about our rating and much more diligent about how much business they allocate to a bank, even on a country-by-country basis.

Filipe Simao (BNP Paribas): There is definitely a clear trend towards corporates revisiting some of their bank relationships. This year in particular, corporates have been approaching us and asking about our capabilities in a variety of different countries and how they can conduct more business with us in new areas that they are expanding into.

So, where for the banks it is a question of 'know your client', for the corporates, it is a question of 'know your bank'. Basel III has to some extent driven this revision of bank relationships, together with a corporate focus on communication standards, innovative technology and quality of service.

Tim Fitzpatrick (HSBC):

Understandably, the corporate environment is still a very cautious one. We are certainly seeing a continued focus on liquidity management and unlocking working capital, as well as growing interest around supplier finance solutions. We are also seeing a re-emergence of in-house banking, continued reduction in the number of bank accounts, and growth in payment factory capabilities. Looking more at new trends though, we are beginning to see more collections factories in operation, as well as a move towards standards such as ISO 20022 XML.

I agree with Filipe that we will see a continued focus on banking groups and treasurers will be keen to work with key global banks that have both geographical coverage and the ability to extend their balance sheet. There is, however, more emphasis today on rewarding those banks that are extending credit, even at a medium-size corporate level.

Finally, I think the handling of trapped cash is a big issue for treasurers at the moment. The role of the bank is to help them in making sure any liquidity a company might have is optimally used.

Jennifer Boussuge

(Bank of America Merrill Lynch): In many ways, we are seeing a return to the 'basics' of cash management because, as Tim said, the environment is still fragile.



As such, corporates are looking to their banks for reliable services, a stable funding source and a trusted relationship.

We recently ran a poll among our corporate clients and the three top areas of focus for treasurers, were cash flow forecasting, operational risk and market risk. But the trend that I think has been most interesting is in the receivables space. In the past, there has been a lot of focus on payment factories and making that model work. Now, people are looking at what they can do on the receivables side, and it really comes down to the data they have available, the richness of that data and how it integrates into their systems.

Credit

Richard Parkinson (TT): Can we drill down into the question of credit a little more? Is there still a very close connection between the proportion of transactional business allocated and credit lines? What trends are you seeing in terms of bank relationships?

Steven Victorin (J.P. Morgan): I expect to see a closer correlation between a bank's propensity to extend credit and the award of a transaction banking mandate now that credit is not so readily available. I think that's why we are seeing so much activity around liquidity optimisation in the treasury space at the moment.

Treasurers are also seeing more rotations within their bank groups as facilities come up for renewal. In Europe, we are in the midst of the cycle where corporates are coming to market and renewing their credit facilities. According to the European Benchmarking Study that we conducted with Treasury Today, almost half of the respondents said it's harder to get credit now than it was a year ago. As such, treasurers have had to step back and evaluate their performance and say: 'What can we do to rationalise our structures? How can we improve our forecasting? How can we influence our working capital management?' That's why supply chain financing is so interesting – because it gives corporates significant choice on how they can optimise their use of cash.

Jennifer Boussuge (Bank of America Merrill Lynch): We use the terms 'partnership' and 'relationship' pretty frequently, and where credit is concerned, these really are key words. As treasurers are considering which institutions they want to have in their bank group, they need to approach it in a relationship fashion, as do the banks. We take a very structured approach in determining who our target clients are and the ways in which we can serve them holistically, across our organisation. Treasurers should be looking at who the key partners are that they want to have going forward to enable them to achieve their goals and needs.

Vanessa Manning (RBS): There has been a definite change around bank relationships from the corporate point of view, as customers review their wallet-sharing decisions based on counterparty risk, cost of capital, emerging market presence and 'best in class' parameters. RBS has a relationship value approach to meeting our customer's needs across our Group, meaning that we deliver integrated and consistent value propositions to our customers. Certainly some industry segments have taken a very different approach over the last two years. We've seen some customers in the energy sector change from a regional or global bank, to a currency bank model, for

example. Other clients have been analysing their banks on a country-by-country basis, in search of 'best-in-class' per country per 'flow' product, rather than 'one bank per region fits all' model. This is driven by our customer's review of their wallet.

Where RBS has focused has been making the corporate to bank interaction more standardised, intuitive and user-friendly. This means that, from a corporate perspective, it should be easy to transact, communicate and implement new services with the bank, with a consistent look and feel globally, irrespective of which solutions a customer utilises.

Mark Tweedie (Citi): Coming back to the question around balance sheet extension, I absolutely agree that credit is fundamental to the bank/corporate relationship, and like any relationship, for it to be successful it needs to have longevity and cooperation. That is widely accepted and understood. Beyond looking at traditional bilateral or syndicated lending, a big emphasis for us has been on trade financing to provide credit to corporates.

In recent times we've seen a tremendous surge in requirements for import loans, for example, in particular from corporates that are buying in Central and Eastern Europe, with assets that have to be funded in dollars or euros. There is an opportunity for us to service that need.

There is also a requirement on the credit side to meet the corporates' needs for export agency financing. More specifically, we've seen a significant increase in the aviation sector, along with telecoms: and not just among emerging market players.

Michael Spiegel (Deutsche Bank): Of course provision of the balance sheet is very important and treasurers will not turn their backs on bilateral facilities, but like Mark, we are seeing a lot of alternative funding and those options are also important considerations for corporates. More than that, I think corporates recognise that it's the broader relationship that is also important, not just the piece tied to credit. So as bankers, we need to ask what else we are bringing to the table. Helping corporates to free up their liquidity, as Steven alluded to, is a key piece of the puzzle.

What I liked about Jennifer's comments around the bank relationship and the partnership is that there are certain corporates who are not short of funding and are of such high quality they will continue to squeeze the prices down. Yes, it is the treasurer's job to get the optimum price-to-quality ratio. However, I think we are increasingly seeing fewer price wars. Corporates are beginning to realise that it goes both ways and what is really critical is that we provide advice which allows them to optimise their internal processes and therefore really cut out cost.

Technology

Richard Parkinson (TT): How has technology changed the cash management landscape and which technologies are yoewwu investing into today? Has anything really moved on in the electronic banking space over the last two, five or even ten years?

Vanessa Manning (RBS): I would say that things have changed considerably over the last two to three years in the electronic banking space.

Bank technology continues to evolve and to provide unprecedented transparency, customisation and flexibility. So much so that proprietary bank technology is now closer to mimicking the treasury workstations that our customers use, with structured reporting, in house banking capabilities, real-time value balance insight and advanced reporting and reconciliation tools; all available through an open architecture, which our clients can access directly through their workstations, online or via tablet/mobile devices.

Away from the proprietary space, SWIFT has also been driving some interesting developments, such as eBAM and more recently, the personal digital identity '3SKey' initiative. We are seeing the largest global corporates starting to implement these technologies and the 'trickle-down' effect will come over the next few years to provide unparalleled ease of use and standardisation of connectivity and information provision between banks and corporates.

Tim Fitzpatrick (HSBC): As connectivity channels have developed, treasurers have achieved much greater inter-connectivity between their banking partners and their core

systems. As such, they can use the information from their banks to enhance their own reporting, which is a strong development for our clients. The non-proprietary developments that Vanessa mentioned are also making it much easier to facilitate system integration.

Cloud solutions are also on the rise. Through using the cloud, treasurers of smaller companies can get the benefits of technology that only larger treasuries could traditionally afford. I don't think the cloud is there yet by any means, but I do see that this might be a potential emerging trend.

Steven Victorin (J.P. Morgan): Clients certainly have aspirations for their technology and an area of particular focus we are seeing is that clients absolutely want access to real-time data around their global liquidity. More than visibility, they also want analytical tools to leverage that increased insight. This is something we have been working on very closely with our clients and it is making an absolutely huge difference.

Filipe Simao (BNP Paribas): We've reached a tipping point from a technology perspective: clients need to know where technology is heading next. SWIFT clearly has a very strong proposition going forward and as Tim alluded to, the service bureau really lowers the price of the entrance ticket.

At the same time, the corporate doesn't need a solution for tomorrow as much as they need a solution which meets their needs today, so as Steven said, it is important to work alongside clients on solutions that provide real-time visibility, for example. Another area where BNP Paribas has been investing is eBAM (electronic bank account management). This initiative will further streamline the administration of bank accounts for corporates.

Mark Tweedie (Citi): Corporates are requiring more sophisticated solutions related to visibility, efficiency and mobility and we have taken an innovative approach to meeting their requirements through technology. Over the past few years, what banking technology has done is to ease corporates' burden around visibility – and this was one of the key objectives we had in mind when building out Citi's TreasuryVision® platform, which we launched five years ago, and is now used by approximately 100 clients.

But platforms cannot afford to stand still, so we are enhancing our existing platforms in a number of different ways. The next generation of CitiDirect® will be launched in the coming year. Further, we are looking to mobilise the platform to enable corporate treasurers to authenticate and authorise payments using their mobile devices.



Elsewhere, in terms of messaging, ISO 20022 XML has rewritten the rule book. It has allowed corporates to negate the necessity to maintain costly and burdensome data tables and master vendor lists. That now sits with the bank.

Jennifer Boussuge (Bank of America Merrill Lynch):

Inevitably, clients have varying technology needs and/or differing abilities to access the types of technology available. So, some of the proprietary bank portals are very relevant today and significant advances have been made on that front.

We have invested a lot in our online portal and our goal has always been to create a global portal that ties everything together, through a single sign-on: be it FX, the company's credit position or transaction banking. It is in areas such as this that e-banking has made some enormous strides over the last few years. That said, I do agree with Vanessa and others that outside the e-banking and proprietary space, corporates are increasingly demanding bank-neutral technology solutions such as SWIFT and XML which allow for greater interoperability.

Vanessa Manning (RBS): It's where it goes next though that will be the real question. Is it just financial transactions that customers want to see through a bank or single portal? They want to see their card transactions, online e-commerce payments, invoices, supplier negotiations, industry and market benchmarks etc.

Those are the areas where banks are spending a lot of time and money to deliver that richness of information around financial and operational risk and transaction information in a single place, coupled with specialist support, so that treasurers are supported in taking appropriate business decisions. As a partner to our corporate customers, our job is to present financial and value information uniformly and intuitively across an entire value chain, at the very least, across customer flows which are visible to us through our network and via interbank messages.

Michael Spiegel (Deutsche Bank):

Just to play devil's advocate here, the large companies want to have bank-independent systems, through SWIFT for example. So in theory, we should ask ourselves whether it actually makes sense to continue investing so much money into technology on the client interfacing side.

I totally agree that tremendous progress has been made on the proprietary side, not just in the transaction banking space. For example, we run by far the largest amount of FX liquidity globally and a lot of that liquidity is run over third party portals. Yet, it is important that

we continue investing into our proprietary technology in the ways that others around the table have outlined.

So I think proprietary technology will continue on a parallel track with bank-agnostic systems. We'll certainly continue seeing more bank-independent use by the large corporates, and I imagine that the medium-sized companies will go down that route as well. But not all corporates can, or will use such portals and we'll continue to see a lot of proprietary developments.

Also, as much as we sit side-by-side on the bank-independent platforms, I don't see us as an industry teaming up and providing one portal, because technology is how we are ultimately going to differentiate ourselves.

Cash flow forecasting

Richard Parkinson (TT): Are corporates looking for better technology around cash flow forecasting as well?

Vanessa Manning (RBS): We recently held two customer advisory boards where this topic came up. From the corporate side, the message is that they don't look at a

*Michael Spiegel
Deutsche Bank*



bank to provide specific cash flow forecasting solutions. Corporates expect that the bank should provide real-time, consistent, standardised and accurate data. But yes, corporate customers are challenged to have more accurate cash forecasts and struggle to enforce accurate data upstream from within and external to their own organisation. The long-standing solutions of payables/receivables netting, pooling tools and supply chain financing can greatly aid more accurate and predictable cash flows.

Jennifer Boussuge (Bank of America Merrill Lynch): For the most part I agree with you, Vanessa, but I do still see some of the smaller treasury teams being very challenged by cash flow forecasting. Since the financial crisis, there has been much more focus on forecasting and treasurers are expected to be able to produce accurate forecasts at the touch of a button. Yes, companies have their Excel spreadsheets or other in-house ways of forecasting, but I find it coming up in conversations with treasurers as quite a challenge. Some TMSs have forecasting applications, but we also provide an outsourcing service to do that for our resource-challenged clients.

Tim Fitzpatrick (HSBC): One positive result of the troubles over the past few years is that it has forced a culture of obtaining better data from subsidiaries to help treasurers with forecasting. In fact, I've even had a couple of treasurers say to me recently that the challenge for them moving forward will be whether people will go back to casually forecasting in subsidiary companies as the climate gets more benign. So keeping the discipline of good cash flow forecasting is the most important thing for them right now.

Steven Victorin (J.P. Morgan): Absolutely – maintaining good cash flow forecasting is a key discipline for treasurers. During the financial crisis, in particular in North American based corporates, treasurers pulled back from the wider decision-making process and took a high level, global view of cash. To a degree, they lost touch with critical local and regional resources and expertise and so regional treasurers have slowly been picking up these responsibilities again. But I agree with Tim that there is a great deal of concern for group treasurers in doing that.

Mark Tweedie (Citi): In my view, the major issue around forecasting is on the receivables side, but there are solutions available. Supply chain finance (SCF), for example, greatly helps suppliers in terms of predictability of in-bound receivables, and improvement of days sales outstanding (DSO). Indeed as Vodafone have shown through their Adam Smith Award winning SCF structure, the benefits are mutually shared between the buyer and seller. Equally we've seen an increase in bilateral receivables discounting. The driver for that tends to be liquidity, credit capacity and exposure reduction rather than a need for improved forecasting, but ultimately the goal is the same: it's about minimising your exposure and increasing your certainty of receivables.

Interestingly, the rigour that Steven and Tim have discussed is beginning to be applied across all financial flows within the corporate entity. Historically the focus may have been on the supplier or tax payments side, but treasurers are now involved with flows that were previously the preserve of the operating unit, such as consumer incentive payments to attract or retain customers in the utility space.

The key for us, looking at our clients, is that treasurers have clearly established their credentials as risk managers and stewards of corporate liquidity: and on the back of that, they are expanding their responsibilities in terms of managing institutional flows.

Filipe Simao (BNP Paribas): I agree with Tim on the fact that the biggest forecasting challenge is not on the payables side as these are usually initiated by the remitter. Discipline and reporting combined often yield good results. Also, depending on corporate culture, payables are sometimes moved to a payment factory, greatly facilitating forecasting.

The situation is rather different on the receivables side. Centralising receivables in a shared service centre is often more difficult unless SEPA Direct Debits (SDD) and other direct debit instruments are used. The difficulty of collections forecasting explains the increasing interest in pan-European factoring solutions, where the actual inflows are much easier to forecast.

Liquidity

Richard Parkinson (TT): How are corporates managing their liquidity and which techniques are proving most popular at the moment?

Vanessa Manning (RBS): Today, most of the global banks offer all the possible variants of cash optimisation solutions, be they notional pools, virtual pools and so on. Over the past couple of years, we have seen increased demand from corporates to keep local banks for local transaction type business, but for the funds to be automatically swept into global overlay pools, held with a single bank, for optimisation/offset purposes.

We are also starting to see more of the Asian, LatAm currencies being permitted in global pooling constructions, as well as legislative changes to allow the 'typically European' notional pooling solutions to be incorporated and hosted in CEE and Asian regions. Irrespective of regional treasury location, such optimisation tools really enable corporate treasurers to have a single global overlay across the US, Africa, Europe and Asia.

With the recent deregulation of the renminbi allowing offshore accounts in Hong Kong and Singapore, for example, really the next step is how to incorporate those flows into your global overlay solution as well. That's one of the value-adds that a global bank offers: it facilitates the treasury's requirement to allow local banks for local business, whilst having the central liquidity position from which to pay down debt or make investment decisions. Deploying a single global optimisation pool, in a tax and treasury efficient location is an incredibly powerful tool.

Tim Fitzpatrick (HSBC): The renminbi move is an interesting one and we at HSBC see it as a core currency moving forward. Senior people at HSBC have been quoted as saying that in the future the renminbi could possibly become a reserve currency, so it's certainly an interesting development.

Michael Spiegel (Deutsche Bank): Agreed and one of the other interesting themes that Asia throws up is that of trapped cash. No one has found a magic bullet yet, but ultimately, liquidity in all its iterations and liquidity concentration will continue to be key. I do not believe that any large or small company will ever again allow too much liquidity to stay in subsidiaries or in places where it cannot be readily mobilised if needed. In many ways, that links back to the discussion around forecasting.



Vanessa Manning
RBS

Jennifer Boussuge (Bank of America Merrill Lynch):

One of the trends we are beginning to see is that where corporates had been sitting on a lot of cash over the past few years out of concern, they are now asking for a little bit more of a pick-up on their yield. That's not to say that corporates are being terribly daring, but they are looking at where their cash would be best placed – bank deposits, time deposits or money market funds, for example.

Vanessa Manning (RBS): I agree. What most of our customers have looked for over the past few years is AAA security, but now the competition is between the AAA returns and flexibility and accessibility of funds. I think the pervasiveness of multi-product portals has had a lot of influence here – they allow corporate treasurers to review and compare all of their money market fund and deposit providers against the rating and return requirements of the corporate investment policy, with a single 'click' of the mouse. The single click also supports the deep dive into asset composition which corporate treasurers now focus on to ensure they have oversight of counterparty risk contained in asset compositions of their fund holdings. That is simplicity itself and a great technology solution to save man-hours in trolling fund prospectus and information to ensure compliance with corporate governance.

Mark Tweedie (Citi): I would like to highlight the question of what corporates are doing with their surplus cash. I agree with Jennifer that corporates are staying rather conservative, many are staying short. It is really only those with large structural surpluses that are using third party asset managers. Elsewhere, we've seen some very interesting M&A transactions in the last 12 months which is another way that companies have been putting their surplus cash to use. Regardless of how corporates elect to manage their liquidity, we are here to partner with clients to identify the right strategy for them and provide solutions to best meet their needs.

Filipe Simao (BNP Paribas): Indeed, Asia is a challenging region from a liquidity management perspective. Any regional approach must take into consideration individual country differences. 'Unregulated' countries such as Hong Kong, Singapore and Japan generally allow for regional liquidity structures and solutions. 'Regulated' countries such as Indonesia, the Philippines and Taiwan require the approval of local authorities for cross-border or regional cash pooling structures. Lastly, 'restricted' countries such as China and India have specific constraints.

Steven Victorin (J.P. Morgan): In every economic contraction, corporates become better at forecasting and establishing visibility of their cash resources. Their view is more global and more real-time than it was pre-financial crisis. Now, they're able to step back and tackle bigger problems such as liberating trapped cash and consolidated balances from around the globe to fund their own growth agenda. That's something quite recent; ten to 15 years ago, I don't think treasurers had that mind-set.

Eurozone

Richard Parkinson (TT): As we are all aware, the euro is under some strain at the present time and there are some countries that are in real difficulty. So what is the lesson here for corporates?

Jennifer Boussuge (Bank of America Merrill Lynch): First and foremost, treasurers need to make sure that they are very cautious when dealing with domestic banks in high risk countries, and so it's important who they choose as their banking partners. It is also crucial that clients have the

appropriate liquidity structures in place so that if necessary, they can automatically pull out their cash.

Michael Spiegel (Deutsche Bank): I recently had a discussion with a highly rated large European corporate and the treasurer there is reviewing the company's banking relationships in light of the sovereign debt crises. Throughout the entire financial crisis, they – like many other large corporates – have monitored what has been happening with the banks. How many banks stayed independent? Who stepped in and who was bailed out? But once they started looking at the banking industry as a whole, analysing each bank's counterparty risk and so on, it really played to the big banks' fortés as our financial strength has been proven since the crisis. As such, corporates will continue looking for global partners.

Mark Tweedie (Citi): You also asked what tips can we give to corporates, just one quick comment would be that exporters cannot afford to have their position uncovered and therefore open account, whilst preferable in the first instance, can give

way to LCs. We've seen that both with the advent of the euro crisis and in the rebuilding of Iraq. In brief, traditional trade finance can assist where there are sovereign concerns.

SEPA

Richard Parkinson (TT): Moving on from the Eurozone to euro payments, is SEPA slowly gaining traction or are corporates still not interested?

Michael Spiegel (Deutsche Bank): With the announcement of end-dates, SEPA has started picking up, which is very promising for those of us who invested into the technology at an early stage and can deliver the full spectrum of capabilities for our clients.

The SDD, which was introduced in November last year, will certainly make a difference in terms of corporate adoption as it really allows the clients to achieve tangible savings. We mentioned earlier about the rise of collections factories, and I think the SDD will only push that forward. Even those

corporates who are not SEPA-orientated are now moving into the second generation of centralising, offshoring or near-shoring their solutions in order to drive costs down and to increase the information that they can actually derive from all of these processes.

Filipe Simao (BNP Paribas):

I agree, it is on the receivables side that corporates are going to see some truly significant benefits. At the same time, the SDD comes with certain complexities to do with mandate management, and clients do expect banks to help them down that path, be it with a solution for the management, the creation or maintenance of the mandate database. Within BNP Paribas, we have developed a solution to help our clients to do those kinds of things, such as format conversion and mandate management. We also have a single SDD engine which we use across all of our domestic markets, which in effect ensures that the SDDs are processed in the same way, no matter which country they originate from.

Vanessa Manning (RBS): SEPA was supposed to have increased in market uptake, at least a year ago. With such relatively negligible uptake of SEPA instruments, (in comparison with the payments market volume in Europe), it's clear that there is some way to go to convince corporates to invest time, technology and treasury budget in SEPA, even as legislators begin with initiatives for e-invoicing, SEPA mobile, e-services etc.



We talked a little bit earlier about treasury transformation projects, and what our customers are reviewing currently are methodologies to implement operational, processing and financial efficiencies at an enterprise-wide level. What our customers tell us is that SEPA in itself is not top of mind, but what is compelling is its native format, ISO 20022 XML and the impact that ISO 20022 XML can make in terms of standardisation of connectivity and information between the customer and their multiple banking providers, enhanced reconciliation rates etc.

So the discussions that we are having with customers are not necessarily around SEPA payment/collection instruments themselves but around the challenge of enriching data to

Mark Tweedie (Citi): Banks have a responsibility on behalf of their corporate clients to work with policy makers. The EU issued their proposal in December 2010 around end dates for legacy instruments. Many would like to see further tightening of the proposal. As Vanessa highlighted, the adoption rate for SEPA is below expectations and will remain low for as long as central bank reporting and legacy ACHs remain in place.

This said, there are some tremendous examples of corporates who have embraced SEPA: Google is a SEPA champion, for example. So, as long as we can actively promote those clients that are embracing SEPA and continue to work with the policy makers while investing in our product and technology capabilities, we will see a migration trend.

Steven Victorin (J.P. Morgan):

Until the SDD was introduced, the regulatory angle appeared to be more influential than the business case for the SEPA credit transfer, which is why the volumes have been so slow to take off. Today though, what we are seeing is that corporates are recognising the efficiencies. Clients are stepping back and looking at their platforms, they are upgrading their processes and making strategic decisions about how they operate in the future.

Where corporates are making changes to their overall technology, SEPA is coming in to play. Making the move to SEPA on its own, in a vacuum if you like, doesn't make a lot of sense because there are a number of other decisions that have to be made around systems. But if clients are already looking at their overall platform, and migrating to XML for example, including SEPA will allow them to leverage standardised processes and instruments for multiple markets. It is really promising that we are seeing so much drive from the corporate side.

Jennifer Boussuge (Bank of America Merrill Lynch):

And I think, coming back to a point that Filipe made earlier, the key driver that we've seen on the part of corporates is this ability to bring the receivables process fully in-house as part of an overall change process. That has been the real impetus for clients to think again about SEPA.



Jennifer Boussuge
Bank of America Merrill Lynch

ensure STP and core information capture for straight through reconciliation. Global ERP providers are working on like inbuilt 'translation/convertor' middle ware in their new releases for new common standard of ISO 20022 XML, which are being agreed between SWIFT, global banks like RBS and ERP providers at SWIFT's Common Global Implementation forum. RBS already supports the transformation of customer formats between local and new standards, and the CGI forum ensures that the new standard adopted ensures interoperability between participating banks and ERPs.

That said, we are also past the point of no return with SEPA. It is happening and that's a fact. As such, the adoption rates are only going to continue to increase, although it will be the forward-thinking clients that get on board sooner rather than later. An important point of consideration for those who wait to get on the bandwagon though is the angle around resource constraints. For them, it is going to be tougher and more expensive to try and convert.

Tim Fitzpatrick (HSBC): Equally, I wouldn't underestimate the importance of the full picture: euro commercial payments as a wider theme is very important to our corporates. As banks, we have a responsibility to guide corporates through this and it will not be as straightforward as people think. Yes, the end date legislation will drive a lot of adoption but adoption is almost the wrong word, it really is about conversion. For example, corporates will now have to look at formatting in a way that they haven't before. They will need our support and our help in this area, as well as to ensure that they are going about the project in the correct way to maximise the potential cost efficiencies.

Michael Spiegel (Deutsche Bank): It is very interesting isn't it? We've talked about the large corporates that are pioneering SEPA; however, we are still finding in many discussions that even for some of the largest corporates, SEPA is not really at the top of their agenda. From a regulatory perspective, I'd say the end date is very critical, but I think that we have all been very outspoken about this.

At Deutsche Bank, we were very early movers in the SEPA space and some might say that we invested in SEPA too soon, because there was no real uptake to speak of. I don't think it has been a disadvantage in any way though, and today we are at the other end of the spectrum, waiting for certain banks to catch up so that the industry as a whole can move forward.

On the upside, I would say corporates have been forced to focus on efficiencies post-crisis, and I think the banks should perhaps make a second push on SEPA to take advantage of that. I've heard far too many discussions where corporates have said, 'Yes, we recognise that SEPA is very important, but we'll get there in our own time.'

Filipe Simao (BNP Paribas): We've talked about the benefits of the SDD and so on, but for me the end date is also going to prompt people to look more towards SEPA on the payments side. I think there's still a lot of gain for customers to move into shared service centres as that model has not been fully exploited yet. One of our clients recently told us that when they moved to a payment factory organisation, an enormous 75% of their cost savings came from automation. So the major cost efficiencies don't necessarily come from the SEPA means of payment itself, although there are benefits, but they come instead from the harmonisation opportunities associated with SEPA.

Vanessa Manning (RBS): I agree that we can go further down the route of where SEPA could potentially add value. Really, SEPA should be a catalyst for

transformation in the type of instruments and standards which a customer uses, not to mention the potential for account (and related fee) rationalisation. For instance, we spend a lot of time discussing DSO strategies with customers – this is not SEPA-specific but SEPA instruments like SEPA DD can offer efficiency gains in moving customers from paper to electronic collections, with defined value date mechanism, which ensure reliability of collection, improved cash flow forecasting with a standardised process across euro collections.

Richard Parkinson (TT): So, really it's left to the banks to come up with the most appropriate solution for the client? If so, to what extent is it possible to come up with innovative solutions that will be applicable across a client spectrum, not just for the big players?

Mark Tweedie (Citi): Digitisation was one of the themes that we kicked off with today and we further highlighted that electronic collections are a growing area of focus. We have some clients who have a substantial amount of cash collections, a good example being Coca Cola Beverage Company in South Korea – they're depositing syrup and finished products at wholesale and retail outlets and there's a



lot of cash in that system. So, as a bank, and as a partner, one is challenged with finding a solution to 'dematerialise' the cash.

We created a cash-to-mobile solution for them effectively providing SMS based controlled direct debit transactions, to transfer funds from one bank account to another using a mobile device. This solution helps all clients along the value chain, large and small.

To answer your question though Richard, I believe our role as the bank is to continue to advise, to counsel, and to support our corporate clients as it pertains to their order-to-cash and procure-to-pay strategies by virtue of innovating and providing new technology to do that.

Michael Spiegel (Deutsche Bank): Corporates are continually pushing us to deliver more and more innovative solutions and to invest in our technology, which is great. One interesting area of development we have recently worked on is to avoid co-mingling of funds and we've been creating a background virtual account that allows you to actually segregate funds – which is a particularly important task in the non-bank FI space, for example.

While clients are driving a lot of the innovation through their requirements, the pressure is definitely on the banks to come up with new solutions. However, some of our clients are also very actively engaged in working with us to create these solutions – they don't just come with problems, but also offer ideas and participate in testing.

Mark Tweedie (Citi): Michael's absolutely right on the virtual account trend, it really is growing. One of the drivers there is data truncation at the clearing house level. If you look at certain markets, such as the Ukraine, Bulgaria and Russia, the fact that corporates can't identify the remitter whenever they take a large receivable in, is a huge challenge. Where the clearing houses aren't providing sufficient data for the corporates, there is an opportunity for banks to continue to innovate and actually deliver that information themselves, which the corporate can then take into their ERP on a straight through reconciliation (STR) basis.

Filipe Simao (BNP Paribas): Absolutely. What we're doing in this space is looking into the relationship between buyers and suppliers and seeing where we can add value. For example, we are able to produce a remittance advice slip that we can send to the beneficiary of the payment to facilitate reconciliation. To a certain extent, that bypasses the limitations of the clearing houses in relaying remittance data.

Vanessa Manning (RBS): That's the beauty of ISO 2002 XML, and not just in cash management transactions but in foreign exchange and LC confirmations as well. Corporates and banks alike are reaping the benefits of a lot more carry-through of standardised information which helps them to make better informed decisions, speeds up reconciliation and leads to an improved cash conversion cycle. Adopting XML is a significant step for customers who are looking to future-proof their operational efficiency, irrespective of size of corporate.

Improvements and innovations delivered for global customers who desire bank agnostic solutions also drive the trickle-down availability for all customers via proprietary bank solutions and that pace of delivery has increased over last three years.

Recommendations

Richard Parkinson (TT): Given the numerous trends that we have highlighted during the discussion, what would be your parting words of advice for corporates today? If there was one area or topic for corporates to really concentrate on in 2012, what would it be?

Mark Tweedie (Citi): Collaborative innovation. For us, we want to work with our clients to create solutions that address their needs. Corporates look to their bank as more than just the provider of capital, but also as a collaborative transaction services partner. We have had some tremendous success with this ethos, as evidenced by the fact that 17 of our clients won accolades at Treasury Today's Adam Smith Awards this year.

Secondly, this is a propitious time for corporate treasurers to exert wider influence. Given the strength of their performance throughout the financial crisis, they have a unique position in their institutions to manage and control the corporate risk, and indeed all corporate transactions, to a level to that they have never had before. Choosing the right bank to service all of the company's needs across the relevant geographies, will be a critical step towards driving efficiencies and in helping the treasurer to do more with less.

Finally, as corporates shift their global operations to growth markets, it is essential that their banking partner both understands their business, and has expertise in the local markets in which they serve.

Steven Victorin (J.P. Morgan): Looking ahead, I think the drive to optimise process efficiency and automation in treasury will continue as corporates face cost and competitive pressures in their markets. The fact that such strategic issues feature on the treasurer's agenda is encouraging and I would urge treasurers to sit down with their banking partners and discuss how to overcome hurdles like efficiency. We are not talking about a product centric conversation here, it really is about strategy.

From our standpoint, we are looking not just at where the client's needs are today on a global basis, but where their needs will be within a five to ten year time frame. I agree with Mark that innovation will be a fundamental factor in helping treasuries optimise performance, but I also believe the corporate focus will be on understanding how best to consolidate global cash balances, how best to retain visibility of cash and thereby improve controls.

Jennifer Boussege (Bank of America Merrill Lynch): My parting words would be that treasurers need to look to their banking partners for deeper relationships. After all, the more we understand about our clients and what they are doing, the more we can help them to balance their risk and optimise their processes. And when I talk about risk, I mean risk across the whole gambit, whether operationally from the usual factors of market, operational, and credit risk with which corporates must contend, or their own individual business risks which impact the performance of their company.

So, in summary, it's about deepening the corporate/bank relationship and encouraging corporates to demand more from their banks.

Vanessa Manning (RBS): Echoing those sentiments to some extent, I would say that it's also important for treasurers to work with their banks more collaboratively around efficiency gains and working capital advisory. Realistically, treasury teams can call on the banks resources and expertise to devise and deploy strategies to increase automation, enhance efficiency and optimise working capital. The banks possess a wealth of expertise in house, across multiple vendor platforms and with global customer base, are well positioned to act as a trusted advisor.

The message to corporates therefore is to work with your banks to help you to identify efficiencies that will impact the P&L, help you to meet your organisational KPIs and deliver sustainable and scalable processes and technology as your organisation develops, enters new markets and customer segments.

Another angle is around liquidity and risk management. I would advise corporates to utilise the plethora of technology solutions available from banks, software and portal providers which support risk management, foreign exchange and liquidity management, which is complemented by bank-specialist advice, based on knowledge of your needs.

Tim Fitzpatrick (HSBC): Continue to keep a focus on corporate liquidity and counterparty risk. Also, continue to review working capital and ensure that the structures in place are right to take advantage of technological advancements such as SWIFT, eBAM, ISO 20022 and so on.

Additional advice would be to review supplier financing arrangements on an on-going basis for better liquidity and risk management. I also think it is now time for treasurers to keep a close eye on SEPA developments and be ready early. Without doubt, collaboration between client and bank can only be a good thing and will lead to more innovation in the future.

Filipe Simao (BNP Paribas): Jennifer mentioned that corporates should demand more from their banks and I couldn't agree more. I think that corporates are entitled to expect better bank relationships going forward with a real focus on the advisory side.

Just to add a slightly different angle though, I would say that the treasurer also needs to get to know their banks better, which links back to the all-important theme of counterparty risk.

I also agree with what has already been said around liquidity but I think there is more that corporates can do around their choice of banking partner here. In this uncertain environment, the word that corporates should bear in mind is 'flexibility'. Choose a bank which is capable of setting up pooling structures across jurisdictions, work with the bank that is able to accommodate different interfaces and provide the format conversions you require.

Finally, I feel the time is right to challenge some of the assumptions that have been around in the treasury arena for quite some time, be it in terms of bank relationships or processes. Consider centralising accounts payable, accounts receivable, but also revisit the way the treasury works with other businesses units. Could cash management be integrated with payables management for instance? Essentially, it's time for an evolution of the treasury function.

Michael Spiegel (Deutsche Bank): We have all talked about partnership, but there is one element of that which we haven't yet touched upon: trust.

The bank/corporate dynamic absolutely has to be based on trust, which in turn has to be based on transparency and fairness. If I were a treasurer or CFO, I would certainly look for all of those things in my bank relationships.

Transparency is equally important from the corporate side: clients need to be clear about what they really want to achieve. Rather than asking for the 'solution of all solutions', it may be that they really just need the next iteration of their current set-up, for example. That is not to say that you shouldn't sit down with your trusted partners and debate how you can create solutions for the future.

An additional factor for corporates to think about in 2012 is being fair when they look at pricing.

For instance, if you are looking for long-term partnerships with your banks, you don't want to be known as a 'price buyer' only. Besides, the best way to truly reduce costs throughout the corporation is not by squeezing relationships – with either banks or suppliers – but through getting advice from bank specialists on efficiency gains that could be made across the organisation.

Richard Parkinson (TT): Thank you everyone.

Thanks again to our participants



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