# Global Liquidity and Cash Management Corporates Guidebook for Treasurers

## Evolving Treasury Trends

Together we thrive

FOREWORD

DIGITAL INNOVATION IN EMERGING MARKETS: INDIA FOCUS

DIGITAL INNOVATION IN EMERGING MARKETS: CHINA FOCUS

BEING OPEN TO OPEN BANKING

SUSTAINABLE TREASURY IN THE DIGITAL WORLD

PROTECTING TREASURY IN A DIGITAL WORLD

LIQUIDITY MANAGEMENT: A WHOLE NEW WORLD

# Global Liquidity and Cash Management Corporates Guidebook for Treasurers

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# Global Liquidity and Cash Management Corporates Guidebook for Treasurers

Foreword by **Lance Kawaguchi**, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC

## AN HSBC INDUSTRY VIEW

**I would like to introduce this guidebook with a wealth of interesting and informative articles featuring HSBC's work across the globe, to help treasurers keep up to date with some of the most vital elements of their world today – digitisation and technology. HSBC's extensive global footprint as well as some of its innovative product developments are highlighted in the range of areas covered in these articles, across the continents of Europe, North America, Latin America, India and Asia Pacific, and validated by recent case studies provided by clients.**

Lance Kawaguchi

India is already well on the way to becoming a digitally-empowered country. Many key milestones achieved since the 2015 launch of the government's Digital India initiative are described within, including the Smart Cities project, aimed at increasing the sophistication of India's urban infrastructure and services. The city of Hangzhou, China, is the home of technology giant, Alibaba, and the payment service provider, Alipay. Almost everything including utilities, public transport and retail services can be, and increasingly more often are, paid for by smartphone, rendering Hangzhou a virtually cashless city. In Asia-Pacific generally, liquidity management is proving a particularly dynamic feature, as regulatory changes within the region, shifts in US tax legislation and interest rates all present corporate treasurers with a wide range of opportunities.

Cybersecurity is frequently at the top of corporate treasury agendas and in Latin America it is a 'fast-growth priority'. This booklet examines the current cybersecurity landscape in the region and explores some of the best practices for cyber risk mitigation. Indeed many of the articles on this subject demonstrate how HSBC, with its breadth and depth of security expertise and ability to effectively operate globally across all client sectors, can offer invaluable assistance to companies in safeguarding their finances data.

Partnership with our clients is of enormous importance to HSBC, and we are constantly expanding the range of solutions available to our customers. One featured here is our new Liquidity Management Portal (LMP), developed to help treasurers maximise liquidity visibility by streamlining the underlying data management.

Other articles illustrate valued partnerships in action, with case studies provided by OceanaGold and AkzoNobel. OceanaGold, a fast-growing multinational gold producer, decided in 2012 to refinance its debt facilities and review its banking relationships; at the time it had mining operations in New Zealand and was opening a mine in the Philippines managed from its Melbourne HQ. For its new primary cash management bank the company chose HSBC. The success of the partnership validated the view taken by its Group Treasurer that "a partner who could support our growth trajectory and new locations would add value in terms of future-proofing".

HSBC's journey with AkzoNobel began in 2007, when the company embarked on a treasury transformation project called One Finance, a demanding project entailing changes to its banking infrastructure, treasury policies, technology and relationship with business units. In view of our extensive network, HSBC was appointed as its primary banking partner in many regions and countries, and was subsequently also awarded the sole mandate for trade finance activities. Since then, the relationship has grown significantly: AkzoNobel's Head of Treasury notes the major benefits her company has gained from the partnership, and we will continue to explore opportunities to expand and strengthen the relationship.

I am confident that the articles in this guidebook will prove to be a long standing source of useful information, and insightful exploration of the future of liquidity and cash management. ■

*HSBC's extensive global footprint as well as some of its innovative product developments are highlighted in the range of areas covered in these articles and validated by recent case studies provided by clients.*

# Digital Innovation in India: The Road Ahead

AN HSBC INDUSTRY VIEW

India is rapidly becoming a digitally-empowered society and economy, opening up new growth and efficiency opportunities for corporates along the way. Successfully embracing digital innovation is both a science and an art, however, as four industry experts explained during a lively panel debate at HSBC's recent **Global Liquidity and Cash Management Digital Innovation and Transformation Forum** hosted by Lance Kawaguchi, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC in Mumbai.

## Enabling business transformation through digital innovation

**Eleanor Hill, TMI: How is India's digitisation journey progressing – and how can corporates take advantage of digital innovation to transform their business models, drive growth, and re-engineer legacy processes?**

**Divyesh Dalal, HSBC:** Digitisation is advancing at a rapid pace across India, even in remote locations. Government and regulatory initiatives are among the key drivers, but consumer trends and technology evolution are adding to the momentum.

In terms of milestones, the reach of the country's digital ecosystem has improved markedly since the government launched the Digital India initiative in 2015. Alongside this, the National Payments Corporation of India (NPCI) has been working hard to build out new digital infrastructures, including the Unified Payments Interface (UPI) in 2016.

On the back of these co-ordinated efforts, the retail landscape has evolved, since more consumers are now able to make digital purchases with ease. Their confidence in technology is also growing, and cash transactions are steadily being replaced by electronic ones – for everything from utilities to insurance and investments. In turn, corporates are quickly adapting their business models to better leverage digital innovation and revamping customer experiences to meet this new demand.

**Rahul Tayal, LG:** Absolutely. Updating and even reinventing our business model to leverage the power of digitisation is a top priority at LG. As a consumer electronics giant, our aim is to know our customers as well as we possibly can - in order to drive sales through one-to-one targeted promotions. The best way for us to do that right now is to further embrace digital innovation.

Unlike traditional marketing, digital marketing provides a platform to focus on a specific target audience. Moreover, campaigns are designed on the basis of consumer habits and preferences. Already, over 400 million consumers in India are connected to the internet. The country is also home to 300 million smartphone users, each spending an average of four hours a day using apps. There is therefore a tremendous potential to target a particular audience; digital media is evolving and new trends are emerging.

The other important aspect of digital marketing is that brands can now go beyond the 20- or 30-second television commercial and create more effective, and more amplified, digital communications. For example, today we are capable of launching a product in one city and then connecting our trade partners, employees and consumers to it – across India and the world – through social media platforms at the same time. This helps in creating awareness and recall for a new launch. It also creates engagement with the audience, which in turn translates into leads.

**Srinivas Jain, SBI Mutual Fund:** We are also looking into the possibilities that data holds, as well as digital innovation as a means to improve legacy processes. The back end of our business has been digital for some time, but the front end has traditionally been paper-based and many of our treasury customers still send us instructions by fax. While we have an automated fax management system that has led to process efficiencies, we wanted a better way to serve our 6,000 odd institutional clients.

So, in 2016, we set up a digital platform for our institutional investors. More recently, we have also embraced virtual accounts, to help ensure the appropriate allocation of client funds, in a more automated way. Uptake of such solutions among clients is currently around 20% but is increasing as clients start to see the efficiency benefits and appreciate the user experience.

For SBI Mutual Fund itself, the value of these digital solutions stretches beyond automation to real-time investor insights. The data from the platform enables our institutional sales team to proactively reach out to customers with suggestions for switching between funds to achieve a better rate, for example. We're also experimenting with leveraging the platform data to create reports on behalf of

### Forum Host:

**Lance Kawaguchi**
Managing Director, Global Head - Corporates, Global Liquidity and Cash Management, HSBC

### Panellists:

**Srinivas Jain**
Executive Director and Chief Marketing Officer, SBI Mutual Fund

**Nikhil Sohoni**
Senior Vice President – Finance and Treasurer, Mahindra & Mahindra

**Rahul Tayal**
Director Strategic Business and Marketing, Digital and Ecommerce, LG Electronics India Pvt. Ltd

**Divyesh Dalal**
India Head, Global Liquidity and Cash Management, HSBC

### Moderator:

**Eleanor Hill**
Editor, TMI

**The Boston Consulting Group (BCG)** is an American worldwide management consulting firm with 90 offices in 50 countries. The firm advises clients in the private, public, and not-for-profit sectors around the world, including more than two-thirds of the Fortune 500 and is one of the 'Big Three' strategy consulting firms (MBB).

**LG Electronics India Pvt. Ltd.** manufactures and sells consumer electronics, home appliances, computer products, and mobile phones in India.

**SBI Funds Management Pvt. Ltd** has 30 years of experience in funds management and brings forward its expertise by consistently delivering value to its investors. It has a strong and proud lineage that traces back to the State Bank of India (SBI) - India's largest bank. It is a Joint Venture between SBI and AMUNDI (France), one of the worlds' leading fund management companies.

*Corporates are quickly adapting their business models to better leverage digital innovation and revamping customer experiences to meet this new demand.*

our clients: not just performance reports; but opportunity reports too, flagging interesting investment options for the treasurer.

Finally, we are using digital innovation to improve our analytics and modelling, specifically around liquidity. One of the widely recognised challenges in the mutual fund industry is that liquidity tends to tighten at certain points in the cycle – such as quarter end. Armed with the data from the platform, we can now build up a much clearer picture of liquidity in real time, and then optimise the portfolio as required.

**Nikhil Sohoni, Mahindra & Mahindra:** Picking up on some of the points Srinivas raised, it's very true that many treasurers still like to send faxes in connection with their investments, including instructions to move monies between investment funds. At Mahindra & Mahindra, we saw this as a hugely inefficient process, so decided to swap to a digital solution: the SWIFT India platform.

We are the first (and currently still the only) company in India to sign up to this payment platform and we are already seeing significant efficiency benefits. Today, before coming to this event, I invested large sums in just four clicks. That's the beauty of digitisation. No faxes, no reconciliations and no waiting for confirmations. It is seamless.

Besides SWIFT India, we're exploring a number of other digital avenues, looking for new solutions to reduce the resource burden and increase efficiency within the treasury function. We've also attempted a foreign remittance using blockchain, which was a good learning experience. UPI doesn't really fall into our remit in this part of the business, because the value of the payments we send or receive are simply too high. That said, we absolutely recognise the potential of UPI within the right marketplace. We have explored it in a few of our group companies and are already seeing the benefits.

Elsewhere, we are considering advanced digitisation tools and are exploring leveraging artificial intelligence (AI) to enhance our foreign exchange (FX) hedging practice. On many occasions, we tend to react to movements in currencies. The idea of leveraging AI is to be more proactive than reactive, aim to predict currency moves with greater accuracy.

For treasury, this kind of digital innovation offers significant efficiency gains as well as strategic wins. Nevertheless, it's important to realise that digitisation is an evolving trend, and what's possible now is actually just the tip of the iceberg.

## A pathway to greater strategic focus

**Eleanor Hill, TMI: To what extent does embracing digital innovation allow businesses – as well as finance and treasury functions – to be more strategic? Could you give some practical examples?**

**Rahul Tayal, LG:** Embracing digital innovation undoubtedly opens up opportunities for more strategic thinking – whether that be at the boardroom level, within sales and marketing, or in treasury and finance. As I explained, at LG, digitisation is allowing us to get to know our customers that much better, meaning that we can be far more strategic in the way we sell to them.

Increasingly, we are launching integrated campaigns with a focus on digital platforms. As an example, certain ranges in our product offering, such as air purifiers and water purifiers are directed towards health-conscious people; and through digital platforms we are targeting campaigns for these products through health influencers – namely celebrities. This has helped in reaching a specific target group, thereby generating greater return on investment (ROI) for our marketing and sales teams.

In short, digital innovation is helping us to be more strategic about the customers we target and the offers we send them. Blanket marketing is a thing of the past; strategic partnerships fuelled by shared data are the future.

**Nikhil Sohoni, Mahindra & Mahindra:** We have been innovating around payments and collections platforms. Although I mentioned that UPI was not the right tool for Mahindra & Mahindra Limited, we now use it extensively in one of our consumer-facing businesses, Mahindra Rural Housing. The company provides loans to farmers who are located

in the interiors, or even further beyond, in the very deep interiors.

They have low annual incomes and loan repayment instalments may be as little as INR 2,000-3,000 a month. The point here is that nearly all of these payments used to be made in cash. When demonetisation happened, we encouraged customers to move to automated clearing house (ACH) payments by offering 2% cash back. The incentive is starting to kick in and 10-15% of our rural customers are now already on the ACH platform. This involved a lot of groundwork for the company and the bank. It was a task to get people to move from cash to digitised payment.

Interestingly, if the ACH looks like it will fail because of insufficient funds in their account, we have also set up a solution that pings an alert, stating the amount they are short, to their mobile phone. If they want, they can then transfer this amount to their account via UPI, thereby avoiding any failed payment charges relating to the ACH or a delayed payment charge for an instalment default.

Of course, for treasury, the benefits of speeding up collections have been enormous. We can now be much more accurate with our cash forecasting and more strategic with investing any excess cash. As a company, we are no longer required to send our agents into the interiors to collect small amounts of cash and this has also led to significant cost savings, which is an additional positive.

**Divyesh Dalal, HSBC:** From our interactions with corporates, it's clear that technology is one of the biggest strategic enablers for businesses in India today – and that 'instant' business is a trend companies can no longer ignore. Not only can businesses leverage these market shifts to speed up collections, as some of the panellists have already discussed, but they can also turn them into strategic marketing and sales tools, as well as competitive bargaining chips. If, for instance, one microfinance institution (MFI) can only disperse a small ticket loan of say, INR 1,000, by tomorrow morning, but a competitor can release a similar loan today, it's clear which MFI will have the strategic edge.

As well as understanding the opportunities, corporates looking to extract the maximum strategic potential from their digital investments must also consider the digital and physical worlds together. This is particularly true in tier 3 and tier 4 towns where digital infrastructures are still developing. The secret to success will be tying the online and offline pieces together into a seamless solution.

**Srinivas Jain, SBI Mutual Fund:** For me, the best way to free up resources and enable the business to become more strategic is to build a friction-free environment for customers, especially on the retail side. A good example of this is electronic Know Your Customer (eKYC) solutions. By committing to using eKYC in our consumer business, we have onboarded more customers than any other large asset manager in India.

As well as having an online eKYC platform available, we also have around 10,500 enabled devices across India that customers can use to become KYC-compliant. Interestingly, customers that have used the eKYC channels for onboarding are three times stickier than those who have used the traditional KYC channels. So, through digital innovation, we have massively improved the customer experience and garnered significant business benefits, whilst cutting down manual workloads.

In addition, we have built a business-to-consumer (B2C) architecture, called Invest Stack, that rivals our offering in the business-to-business (B2B) space, and makes use of API technology. Fintechs can simply pick up these APIs and integrate them into their platforms - and then start selling mutual funds. It really is that easy. We have at least three fintechs already doing this, and this is a totally new arm of our business strategy – but one that is proving to be highly effective.

## Digital disruption: threats and opportunities

**Eleanor Hill, TMI: What emerging digital innovations should companies watch out for in the months to years ahead? And how can they embrace the agility of new technologies, partners, and ways of working, whilst retaining the security of solutions they know and trust?**

**Mahindra and Mahindra Limited (M&M)** is an Indian multinational car manufacturing corporation headquartered in Mumbai, Maharashtra, India. It is one of the largest vehicle manufacturers by production in India and the largest manufacturer of tractors in the world. It is a part of the Mahindra Group, an Indian conglomerate.

**Indian Software Products Industry Round Table (iSPIRT)** is a think tank for the Indian software products industry. It helps companies with policy – converting ideas into policy proposals to take to government stakeholders; playbooks – converting conversations into playbooks for product entrepreneurs; and market catalysts – converting actions of self-help communities into market catalysts for the software product industry.

**National Payments Corporation of India (NPCI)** is an umbrella organisation for operating retail payments and settlement systems in India. It is an initiative of Reserve Bank of India (RBI) and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India.

*We can now be much more accurate with our cash forecasting and more strategic with investing any excess cash.*

*It is far better to make mistakes along your digitisation journey, or in your digital collaborations, than to let fear prevent you from getting started.*

**Divyesh Dalal, HSBC:** There are a number of misnomers around 'digital disruption' which often lead to the concept being perceived as negative. But digitisation doesn't mean that everything must be done through digital channels – and that tried and tested means of working have to be abandoned. As I alluded to before, there are benefits of combining the physical and digital worlds and essentially augmenting existing processes with digital elements. And in my view, this is the best form of digital disruption.

Take the lending sector, for instance. A number of deals are still done offline – but thanks to digital solutions, such as online credit checks and the eKYC solutions that Srinivas mentioned before, lenders can go through a largely offline process and yet still onboard a customer, identify their creditworthiness, and sanction a loan in around five minutes. Approved loans can also be disbursed more or less immediately using an instant payments service via API.

So, don't be fooled into thinking that embracing digital innovation or disruption has to mean a complete overhaul – it could simply be an upgrade of systems and processes, enabling companies and consumers to have the best of both worlds.

**Srinivas Jain, SBI Mutual Fund:** Personally, I believe that a large proportion of future digital disruption will be led by fintechs. The India Stack platform that I spoke about before came about as a direct result of fintechs entering the asset management industry and shaking up the way we do business – which was arguably ripe for change.

They are bringing a totally new dimension to investing, with solutions such as robo advice. And traditional asset managers have to adapt to survive. India Stack is our way of doing that. It has allowed us to work with the fintechs within an environment that is under our control.

We are also leveraging fintechs to provide us with deep-dive customer analytics, and for last mile distribution. So, we have combined the best parts of our existing offering with solutions from new entrants to improve the overall package for clients. Rather than referring to this as disruption, I prefer to call it 'progress'.

**Nikhil Sohoni, Mahindra & Mahindra:** When it comes to disruption, I believe that we will see more corporates joining collaborative projects and effectively leading the way around technological change. One area where treasurers would no doubt be keen to work together with banks and fintechs to solve an industry issue is KYC.

With each bank requiring different documentation, as well as multiple physical copies of those documents, KYC is currently a huge headache for everyone. But blockchain could potentially revolutionise the KYC process, meaning that corporates would only need to upload one set of documentation, and then simply grant permission to each of its banks to access it.

With such a solution, KYC processes could be completed in minutes, not days, weeks, or even months. However, treasurers need to take that leadership role and push banks to look towards disruptive technologies like blockchain in order to build a better future for the industry.

**Rahul Tayal, LG:** In terms of new technologies, we are closely observing new trends such as chatbots, which will be the next big thing over the coming years. In fact, by 2020 it is expected that 85% of customer service interactions will be handled by bots. The trend has started to dominate the industry already as research suggests that 27% of people are unable to figure out whether they spoke to a person or a chatbot in their last customer service interaction.

And on the topic of digital disruption, I'll wrap up by saying that meaningful collaboration and a large dose of courage will be required for organisations to fully benefit from digital disruption and innovation. If businesses fail to embrace a collaborative mind-set or treat it as a box-ticking exercise, they will fall foul of disruption.

Certainly, adopting new technologies is risky; but it is far better to make mistakes along your digitisation journey, or in your digital collaborations, than to let fear prevent you from getting started. As the rise of the Chinese economy, and e-commerce giants like Alibaba, have shown us, digital innovation is the new world order – and the biggest mistake companies can make is failing to fully recognise this. ■

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# Digital India: A New Dawn for Treasury Management

AN HSBC INDUSTRY VIEW

As well as being technical experts and strategic business partners, today's treasurers must also keep up to speed with digital innovation. This means not only understanding the role of digitisation in building a next-generation treasury function, but also recognising the importance of digital disruption in helping the wider business to grow and prosper.

**With so much 'noise' around digital innovation, it can be difficult to filter out the trends and initiatives that truly matter. To help treasurers in India do just that, HSBC's Global Liquidity and Cash Management business held a Digital Innovation and Transformation Forum, April 2018 in Mumbai. The Forum attracted over 100 corporate attendees and was hosted by Lance Kawaguchi, Managing Director, Glob al Head - Corporates, Global Liquidity and Cash Management, HSBC.**

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## Supporting widespread digital adoption

Opening the Forum with an overview of India's digital journey to date, Kawaguchi explained how the country is well on its way to becoming a digitally-empowered society and economy. He outlined some of the key milestones achieved since the launch of the government's Digital India initiative in 2015, including the introduction of Umung, a unified platform that supports e-government activities, and the Smart Cities project aimed at delivering more sophisticated urban infrastructure and services.

He noted that, "While one might think that digital innovation projects such as this are happening purely at a macro level, in fact, they are taking hold at a grassroots level too, ensuring all citizens have access to a single ID for government and banking services, improving digital literacy and making internet accessible for millions of rural households."

Inevitably, this kind of systemic change is leading to new consumer and business expectations. To support these, HSBC has invested in its digital capabilities in the country. "We've leveraged digital technology in the area of biometric data, making it easier for you to initiate activity on our e-banking platforms while enhancing security through touch ID, voice recognition and most recently, facial recognition," he said.

"Furthermore, we were one of the first banks to launch the Unified Payments Interface (UPI), allowing corporates and financial institutions digital access to the massive consumer-to- business (C2B) market. We were also among the first banks to go live with e-mandates for direct debits and electronic support for Goods and Services Tax (GST) Payments," he explained.

Kawaguchi then took a moment to address the elephant in the room: fintech. "It's been said before, but we truly aim to see these industry disrupters as partners, rather than threats," he reassured the audience – citing the bank's partnership with TradeShift, a fintech focused on digitising the invoicing and supply chain process for corporates, as evidence of this.

Collaboration is the order of the day, he said, since there is no value in corporates having to 'choose sides' between banks and fintechs. "HSBC will continue to focus and invest in these types of partnerships going forward; to keep pace with the changing market and to best support our clients," he noted.

## Navigating the new digital landscape

Following Kawaguchi's opening address, Pranay Mehrotra, Senior Partner, Boston Consulting Group, took to the stage to discuss how business and bank interactions are changing as a result of the evolving digital ecosystem. He began by addressing the global themes of Industry 4.0 and the digitisation of supply chains, moving on to the potential of blockchain and robotics to enhance manufacturing and deliver a better customer experience.

Homing in on the corporate treasury sphere, Mehrotra also spoke about the role of banks in providing corporates with cutting-edge digital solutions. He called out the growing advisory role of banks, such as helping treasury to better understand how to optimise the supply chain and improve working capital metrics, through the use of technology. Data analytics would also be a key area where banks and corporates could collaborate more closely in the future, he said.

Providing a counterbalance to these digital opportunities, Mehrotra also underlined one of the well-documented drawbacks of digitisation: cybercrime. He urged treasurers in India to pay closer attention to cyber threats as digital innovation continues, and to engage with their banks around cybercrime prevention.

## Adding value through digital innovation

Next, four industry experts took to the stage to discuss the power of digital innovation in enabling business transformation; how digitisation allows corporates to focus more on strategic goals; and embracing digitisation within the treasury department.

Kicking off the session, Divyesh Dalal, India Head, Global Liquidity and Cash Management, HSBC, explained how forward-thinking corporates in India are quickly adapting their business models to

better leverage digital innovation and revamping customer experiences to meet new demands arising from the growth of electronic transactions.

Rahul Tayal, Director Strategic Business and Marketing, Digital and E-commerce, LG Electronics India Pvt. Ltd, agreed, saying that: "Updating and even reinventing our business model to leverage the power of digitisation is a top priority at LG. As a consumer electronics giant, our aim is to know our customers as well as we possibly can - in order to drive sales through one-to-one targeted promotions. The best way for us to do that right now is to further embrace digital innovation."

He then explained that, "Unlike traditional marketing, digital marketing provides a platform to focus on a specific target audience. Moreover, campaigns are designed on the basis of consumer habits and preferences. Already, over 400 million consumers in India are connected to the internet. The country is also home to 300 million smartphone users, each spending an average of four hours a day using apps. There is therefore a tremendous potential to target a particular audience; digital media is evolving and new trends are emerging."

Likewise, SBI Mutual Fund has embraced digital innovation to better respond to customer needs, explained Srinivas Jain, Executive Director and Chief Marketing Officer at the company. "The back end of our business has been digital for some time, but the front end has traditionally been paper-based. We wanted a better way to serve our 6,000 odd institutional clients. So, in 2016, we set up a digital platform for our institutional investors. We have also embraced virtual accounts, to help ensure the appropriate allocation of client funds, in a more automated way," he said.

For SBI Mutual Fund itself, the value of these digital solutions stretches beyond automation to real-time investor insights. "The data from the platform enables our institutional sales team to proactively reach out to customers with suggestions for switching between funds to achieve a better rate, for example. We're also experimenting with leveraging the platform data to create reports on behalf of our clients: not just performance reports, but opportunity reports too, flagging interesting investment options for the treasurer," he added.

Picking up on some of the points raised by Jain, Nikhil Sohoni, Senior Vice President – Finance and Group Treasury, Mahindra & Mahindra admitted that "many treasurers still like to send faxes in connection with their investments, including instructions to move monies between investment funds". But seeing this as "a hugely inefficient process" the company decided to swap to a digital solution: the SWIFT India platform.

"We are the first (and currently still the only) company in India to sign up to this payment platform and we are already seeing significant efficiency benefits. Today, before coming to this event, I invested large sums in just four clicks. That's the beauty of digitisation. No faxes, no reconciliations and no waiting for confirmations. It is seamless," he explained.

In addition, Mahindra & Mahindra is looking into the possibilities of technologies such as blockchain and artificial intelligence (AI), he said. "For treasury, this kind of digital innovation offers significant efficiency gains as well as strategic wins. Nevertheless, it's important to realise that digitisation is an evolving trend, and what's possible now is actually just the tip of the iceberg."

## Gaining a strategic edge

Moving on, the panel then discussed the extent to which embracing digital innovation allows businesses – as well as treasury functions – to be more strategic. Here, Dalal shared some insights from his interactions with corporates, saying that: "Technology is one of the biggest strategic enablers for businesses in India today – and that 'instant' business is a trend companies can no longer ignore. Not only can businesses leverage these market shifts to speed up collections, but they can also turn them into strategic marketing and sales tools, as well as competitive bargaining chips."

To Dalal's point, Sohoni then explained how Mahindra Rural Housing has garnered strategic advantages by moving customers away from cash towards digital payments. "For treasury, the benefits of speeding up collections have been enormous. We can now be much more accurate with our cash

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forecasting and more strategic with investing any excess cash," he noted.

In order to see the maximum possible operational and strategic benefits from this move away from cash, Sohoni said the company had, "Encouraged customers to move to automated clearing house (ACH) payments by offering 2% cash back. The incentive is starting to kick in and 10-15% of our rural customers are now already on the ACH platform."

Tayal was equally bullish on the potential for digital innovation to unlock strategic gains, saying simply that: "Digital innovation is helping us to be more strategic about the customers we target and the offers we send them. Blanket marketing is a thing of the past; strategic partnerships fuelled by shared data are the future."

Meanwhile, Jain explained that, in his view, "The best way to free up resources and enable the business to become more strategic is to build a friction-free environment for customers, especially on the retail side. A good example of this is electronic Know Your Customer (eKYC) solutions. By committing to using eKYC in our consumer business, we have onboarded more customers than any other large asset manager in India."

*We will see more corporates joining collaborative projects and effectively leading the way around technological change.*

## Redefining digital disruption

The panel's final topic for discussion was digital disruption, and the inherent threats and opportunities. Dalal led the debate, stating that, "There are a number of misnomers around 'digital disruption' which often lead to the concept being perceived as negative. But digitisation doesn't mean that everything must be done through digital channels – and that tried and tested means of working have to be abandoned."

There are benefits of combining the physical and digital worlds and essentially augmenting existing processes with digital elements, he said. "So, don't be fooled into thinking that embracing digital innovation or disruption has to mean a complete overhaul – it could simply be an upgrade of systems and processes, enabling companies and consumers to have the best of both worlds."

Jain, meanwhile, explained how he believed the concept of disruption was closely linked to fintechs. "We have built a business-to-consumer (B2C) architecture, called Invest Stack, that rivals our offering in the business-to-business (B2B) space, and makes use of application programming interface (API) technology. Fintechs can simply pick up these APIs and integrate them into their platforms - and then start selling mutual funds," he said.

"This platform came about as a direct result of fintechs entering the asset management industry and shaking up the way we do business – which was arguably ripe for change," he continued. "They are bringing a totally new dimension to investing, with solutions such as robo advice. And traditional asset managers have to adapt to survive."

For Sohoni, however, digital disruption means a different way of working between corporates and banks. He believes, "We will see more corporates joining collaborative projects and effectively leading the way around technological change. One area where treasurers would no doubt be keen to work together with banks and fintechs to solve an industry issue is KYC," he said.

Sohoni went on to explain that with each bank requiring different documentation, as well as multiple physical copies of those documents, KYC is currently "a huge headache for everyone. But blockchain could potentially revolutionise the KYC process, meaning that corporates would only need to upload one set of documentation, and then simply grant permission to each of its banks to access it."

With such a solution, KYC processes could be completed in minutes, not days, weeks, or even months, he said. "However, treasurers need to take that leadership role and push banks to look towards disruptive technologies like blockchain in order to build a better future for the industry."

Tayal concluded the session, saying that "meaningful collaboration and a large dose of courage will be required for organisations to fully benefit from digital disruption and innovation. If businesses fail to embrace a collaborative mind-set or treat it as a box-ticking exercise, they will fall foul of disruption," he predicted.

"Certainly, adopting new technologies is risky; but it is far better to make mistakes along your digitisation journey, or in your digital collaborations, than to let fear prevent you from getting started. As the rise of the Chinese economy, and e-commerce giants like Alibaba, have shown us, digital innovation is the new world order – and the biggest mistake companies can make is failing to fully recognise this," he advised.

## Turning physical negatives into digital positives

Next, Nakul Saxena, Industry Policy Advocacy Fellow at the iSPIRT Foundation, gave an insightful presentation looking at India Stack – a set of APIs that allows governments, businesses, startups and developers to utilise an unique digital infrastructure to move India's economy towards a presence-less, paperless, and cashless service delivery model. The open API team at the iSPIRT Foundation is a pro-bono partner in the development, evolution, and evangelisation of these APIs, he explained.

After outlining how India Stack works, Saxena delved into the benefits, which include bringing millions of Indians into the formal economy by reducing friction in traditional banking channels. He spoke extensively about the role of UPI in achieving this. He described how India

Stack also stands to revolutionise government services, moving them into a more transparent, accountable and secure environment, through solutions such as DigiLocker.

Indian citizens who sign up for a DigiLocker account receive a dedicated cloud storage space that is linked to their Aadhaar (UIDAI) number. Meanwhile, organisations that are registered with DigiLocker have the ability to push electronic copies of documents and certificates, such as driving licences, directly into citizens' lockers, he explained.

Much to the interest of the audience, Saxena also outlined how India Stack could reduce arduous KYC processes down to circa two minutes, thanks to a paperless process whereby a person's identity and address are verified electronically through Aadhaar Authentication.

Saxena wrapped up by saying that transactions that once would have been written off as science fiction are now becoming a reality in India, thanks to API technology.

## Digital payments innovation

The final presentation came from Dilip Asbe, CEO, National Payments Corporation of India (NPCI). He began by recapping the role of the NPCI in aiming is to transform India into a society no longer dependent on cash. "This does not mean 'cashless', but a society that uses less cash – there is an important difference," he noted.

Asbe then highlighted some of the key milestones that the not-for-profit organisation has achieved since its inception eight years ago. He spoke about flagship initiatives such as the Immediate Payment Service (IMPS), the National Automated Clearing House (NACH), and UPI – which is seen as one of the most revolutionary payments products in India.

He also mentioned the significant progress being made through schemes such as RuPay Credit Card (with contactless capabilities in the pipeline), the National Electronic Toll Collection (NETC) and the successful pilot of the Bharat Bill Payment System (BBPS). "We have now taken BBPS into live mode, and five bill payment categories are allowed," he added.

"Although the solution is relatively new, we have already seen between four and five million transactions processed via BBPS. Over the next 24 months, we expect transaction volumes to increase enormously, driven by the government's desire to move towards an electronic model, together with the growing interoperability and accessibility of bank networks," he predicted.

Despite the progress made to date, Asbe was realistic about the fact that a critical mass has not yet been reached in terms of onboarding Indian citizens to digital channels. To help achieve this, NPCI will continue "firing on all cylinders" and focus on continuous improvement of its solutions to make them even easier for citizens to use – and more compelling from a value proposition perspective. "As an example, we are in the process of launching UPI 2.0 (yet to be approved by the regulator) which will enable mandates and invoices to be carried along with the transaction. We believe this will be a useful functionality which will spur even greater interest in UPI," he said.

Asbe then opened up the floor to questions from the audience. Concerns from corporates included real-time confirmations for UPI transactions, increasing the Rs. 1 lakh daily limit on UPI payments, and recourse on ACH returns. On all counts, Asbe confirmed that NPCI is working to iron out any creases, and invited individual corporates experiencing issues with particular banks, or with ideas for improving current set-ups, to get in touch with the NPCI. "After all, a collaborative approach to developing our solutions is critical to moving towards our vision to be the best payments network globally," he concluded.

## Furthering the digital cause

This presentation brought the Forum to a close, but discussion of the topics did not stop there, with lively debate carrying on over a networking dinner. And, of course, HSBC's Global Liquidity and Cash Management business will continue the conversation going forward, drawing corporates' attention to important digital trends and opportunities, as well as investing in the most relevant digital innovations to enhance the overall client experience. ■

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# On the Brink of a Cashless Society?

AN HSBC INDUSTRY VIEW

By **Irene Zeng**, Director, Head of Sales – Global Banking Corporates, Greater China Global Liquidity and Cash Management, Asia-Pacific

**The environment in Hangzhou, China today is similar to many other cities around the world: building sites become shiny new shops, offices and apartments; new infrastructure moves people faster than ever, and a vibrant community of people work, study and spend their leisure time. But in one important respect, Hangzhou is quite different.**

## A blueprint for China and beyond

In addition to being the home of Chinese technology giant Alibaba and payment service provider Alipay, Hangzhou is a virtually cashless city. Almost everything including utilities, taxis, public transport and retail, services can be paid via smartphone. Naturally, many of Hangzhou's citizens experience quite a culture shock when they visit other cities and have to pay by cash or card. However, the expectation is that paying with mobile

will become more the norm in other Chinese cities. How will this rapid and profound shift in the way that people and businesses pay for goods and services affect corporate treasurers?

Although the pace of change can be quicker in some markets, the migration away from cash collections has been well-received by most businesses, not only within China but also globally. Electronic collections are now cheaper, more secure and notably accompanied by richer data. This can all be harnessed to offer intelligence and insight into customers and their behaviours to target marketing campaigns, design incentive programmes and formulate strategies. As regional and global corporations gain experience and recognise the value of electronic collections in one city or country, they are able to transfer this experience to their operations elsewhere, which further accelerates adoption.

## Catalysts of change

In many respects, the shift towards electronic payments and collections is neither new nor surprising. Consumers and businesses have a wide range of electronic payment and collection methods available to them, including cards, direct debits, ACH and wire payments, as well as, in a growing number of markets, instant and mobile payments. However, there are three closely-linked trends that are now driving cashless societies at an unprecedented rate:

First is the ubiquity of smartphones. Over half of China's population accesses the internet through a smartphone[1], five times the number of the United States. The growth in smartphone usage is a global trend: China is the 26th country globally ranked by percentage of smartphone penetration, with countries or areas such as the Netherlands, Taiwan, Hong Kong, Norway and Ireland all seeing penetration rates above 90%[2], illustrating the scale of change and opportunity.

Related to this is the use of social media, such as WeChat, which in China offers integrated payment capabilities through WeChat Pay – another trend that is taking shape globally. For example, in March 2018, WeChat's owner Tencent announced that WeChat had one billion active users. They spend around a third of their total smartphone time on WeChat, equivalent to around two hours a day.

Another closely related trend is the level of adoption, and speed of growth in e-commerce. China represents nearly half of the world's e-commerce[3] which accounted for more than 23% of retail sales in 2017, of which 75% – over $1tr - will be transacted via smartphone. This figure is expected to increase to 40.8% by 2021[4].

These phenomena are not only relevant to corporations that have local operations in China; other markets, such as India, Hong Kong and Singapore are also experiencing similar trends. What is different, however, is the drivers of change in each market. In China, for example, the trend towards a cashless society is being driven by market forces; however, in countries like India the digitisation of payments is the result of government or central bank initiatives. For example, the Indian government was keen to use demonetisation as a way to increase transparency in the economy and encourage financial inclusion. One important illustration of this has been the government's support for the Immediate Payment Service (IMPS), an instant, interbank electronic funds transfer platform.

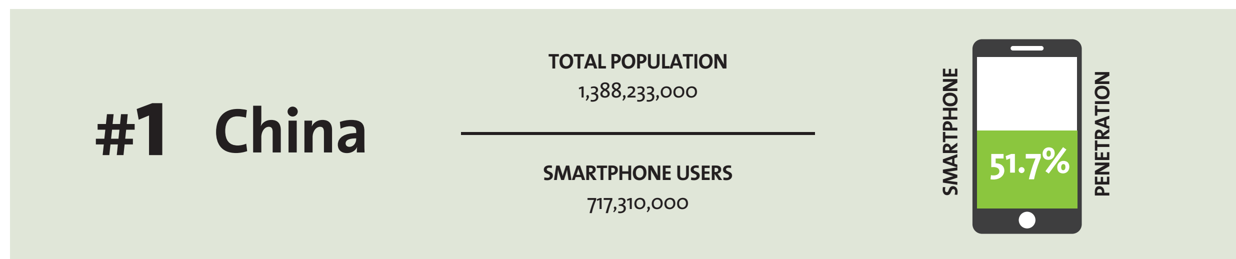
## Taking an omni-channel approach

In all markets where the use of digital payments is proliferating, e-commerce volumes are growing rapidly, as the example of China illustrates. The difficulty for businesses selling into China and other markets that are experiencing growing e-commerce volumes is the need to support an expanding range of digital collection methods; however, at the same time offline sales still far exceed those online. Consequently, in addition to emerging new payment methods that support e-commerce and m-commerce, companies still need to support face-to-face payment methods, often including cash. Furthermore, new payment

**Fig 1 Benefits of migration to electronic collection**

*Over half of China's population accesses the internet through a smartphone, five times the number of the United States.*

## Fig 2 Top 15 Countries by Smartphone Users and Penetration




| RANK | COUNTRY | TOTAL POPULATION | SMARTPHONE USERS | SMARTPHONE PENETRATION |
|---|---|---|---|---|
| 2 | India | 1,342,513,000 | 300,124,000 | 22.4% |
| 3 | United States | 326,474,000 | 226,289,000 | 69.3% |
| 4 | Brazil | 211,243,000 | 79,578,000 | 37.7% |
| 5 | Russian Federation | 143,375,000 | 78,364,000 | 54.7% |
| 6 | Japan | 126,045,000 | 63,089,000 | 50.1% |
| 7 | Germany | 80,636,000 | 55,492,000 | 68.8% |
| 8 | Indonesia | 263,510,000 | 54,494,000 | 20.7% |
| 9 | Mexico | 130,223,000 | 52,993,000 | 40.7% |
| 10 | United Kingdom | 65,511,000 | 44,953,000 | 68.6% |
| 11 | France | 64,939,000 | 42,399,000 | 65.3% |
| 12 | Turkey | 80,418,000 | 40,010,000 | 49.8% |
| 13 | Italy | 59,798,000 | 39,323,000 | 65.8% |
| 14 | South Korea | 50,705,000 | 36,262,000 | 71.5% |
| 15 | Spain | 46,070,000 | 30,771,000 | 66.8% |

*Source: 2017 Global Mobile Market Report from Newzoo*

methods tend to add to (rather than replace) existing payment methods, leading to increased complexity and cost. This problem becomes even greater for companies that operate internationally as local payment practices and instruments differ across countries.

A fast-growing number of corporations are choosing to manage the proliferation of emerging and traditional collection methods in a consistent way through omni-channel collection solutions, such as those in the retail and luxury goods sectors. This type of solution, which is gaining particular traction in China, provides merchants with the ability to accept and process a comprehensive range of collection methods through a single channel. Incoming transactions are presented in a standard format, and accompanied with rich information to support reconciliation, financial and strategic analysis. Corporate treasurers therefore avoid the need to establish separate channels for different collection methods or countries. At the same time, an omni-channel approach also resolves the difficulty of different cut-off times and varying post-transaction documentation requirements between countries.

The commercial benefits of omni-channel collection solutions are clear, with customers enjoying a better, more consistent experience when purchasing products and services, leading to fewer abandoned transactions and improved customer satisfaction. Additionally, the working capital benefits should not be underestimated. Efficient collection, predictable value-dating and the ability to use data to automate reconciliation are all essential components in an effective treasury and working capital management strategy. Treasurers can accelerate the cash conversion cycle, improve short-term cash flow forecasting and liquidity planning, and reduce the cash 'buffer' maintained for working capital purposes.

*Notes*
1 51.7 percent, Newzoo's Global Mobile Market Report, April 2017
2 Zenith's Mobile Advertising Forecasts 2017
3 eMarketer, 2017
4 eMarketer, 2017

## A global view

The value proposition of omni-channel collection solutions extends globally but it is often most compelling in countries such as China and India where payment digitisation is growing fastest. However, this is not an isolated phenomenon. The combined stimulus of smartphone proliferation, use and reach of social media, and growth of e-commerce, particularly in fast-growing and emerging markets where these trends are most acute, will continue to fuel changing consumer behaviours and treasurers will need to respond quickly and efficiently. Furthermore, as e-commerce becomes increasingly cross-border and consumers expect the same level of payment convenience when travelling overseas, electronic and digital payments trends will continue to expand to other parts of the world. The right platforms will allow corporations to not only accommodate trends as they appear today, but also to position their business for change and competitive opportunities ahead. ■

***In all markets where the use of digital payments is proliferating, e-commerce volumes are growing rapidly, as the example of China illustrates.***

# Being Open to Open Banking

AN HSBC INDUSTRY VIEW

By **Drew Douglas**, Head of Liquidity and Cash Management, North America and **Lance Kawaguchi**, Global Head – Corporates, Global Liquidity and Cash Management, HSBC

**HSBC has a new global strategy, is investing heavily in technology and is embracing open-architecture to help its clients in digital transformation.**

**Treasurers at multinational corporations face immense pressure to make better use of emerging, digital technologies – both to increase efficiency in treasury's key areas of responsibility and to help the larger company meet its strategic objectives. And this overarching pressure to automate and embrace transformation has put additional focus on what is perhaps the single most important relationship tre asury has outside the company – with its banks.**

HSBC is investing heavily in technology and partnering with fintechs that can aid their effort to make banking faster and easier while addressing the often varying needs of corporate clients. HSBC CEO John Flint in June announced the bank plans to invest USD15-USD17bn in technology as part of its growth[1].

On a conference call, Mr. Flint said, "Technological disruption will accelerate in the coming years. It is therefore essential for the long-term competitiveness of the firm that we keep investing in technology. Being able to invest at this point of the cycle will differentiate future winners from the rest of the industry. We're already seeing leading banks push ahead of the rest. Given our size and scale, we have an ability to invest that others don't, and we need to be better at this than the competition."

But it's going to take a strategic application of the investment to help clients. As HSBC acknowledges, when it comes to automation, companies may have different priorities. For instance, a company with an outdated Enterprise Resource Plan (ERP) may not see upgrading as a priority, preferring instead to focus on new methods of accepting payments. Or a corporate customer may be solely focused on geographic expansion or reorganisation and may move slowly in digitalisation as it spends time acclimatising to new markets.

Ultimately, HSBC's strategy rests on the belief it can best service its clients using all the tools available to it—those developed inside the bank and those by third parties—and by organising the bank to best meet the individual needs of each customer.

## New Global Model

As a result, concurrent with its big tech push, the bank's Global Liquidity and Cash Management is realigning how it does business: It has been transitioning from a purely country-based sales model to a global sector sales model. This effort is being led by Lance Kawaguchi, Global Head - Corporates, Global Liquidity and Cash Management at HSBC.

"We changed our Global Banking model to be more industry- aligned," he says, and to move away from being a very country and region-specific bank, aiming for a single approach to client interactions. So how things are done in London are exactly the way things are done in Singapore. For a large multinational client, Mr. Kawaguchi says, there is now "one group that covers it globally, not just for consistency of client experience, but also to make sure that the solutions they are trying to put forth to the treasury team are better tailored to what's important to them. It's not one-size fits all."

This is true of cash management, he says, adding that while some observers have said it's become commoditised, at HSBC it's considered strategic. This approach has helped HSBC secure both North America's and The World's Best Bank for Transaction Services in the Euromoney magazine's Awards for Excellence 2018[2].

"Everything has to be client centric," says Mr. Kawaguchi. This means all its products and all its solutions have been based on the feedback from clients. Previously, he says, banks tended to work internally "to try and guess what clients wanted instead of asking them what they needed." So far, the sector- based approach is working, based on more recent feedback. "What we're getting from the market and from our sector experts is that it's actually much more efficient for the bank because now we know where to allocate our resources," says Mr. Kawaguchi.

## Bring on the Technology

With its sales structure in place, HSBC's Global Liquidity and Cash Management says it can now better deploy its products and strategy to hit all the needs of its clientele; needs that, as mentioned, are very often disparate.

Drew Douglas, Head of Liquidity and Cash Management, North America at HSBC, says he and his colleagues frequently see examples of these disparate or conflicting priorities when dealing with a range of clients. "We have some clients where liquidity and working capital optimisation is a priority and we spend a lot of time working with them on solutions," he says. But the next client may offer up a wholly separate set of priorities. "They might be in expansion mode and therefore liquidity and working capital optimisation is going to stay at current levels." Or they decide not to expand the way they use their ERP system, reasoning

*Treasurers at multinational corporations face immense pressure to make better use of emerging, digital technologies.*

*HSBC is investing heavily in technology and partnering with fintechs that can aid their effort to make banking faster and easier.*

that they will just use them as they are because current objectives are to move into new markets and prioritise resources on the expansion.

What Mr. Douglas and HSBC are looking to do is to support both scenarios using the concept of interoperability and open banking. Interoperability, via application programming interfaces or APIs, provides the capability for systems and organisations to work together seamlessly, based on common standards. This means partnering to more easily facilitate the thousands of transactions multinationals make daily by smoothing out bumps that get in the way.

Mr. Douglas says "we have spoken of interoperability for many years in asset management, custody, prime brokerage and cash management. With rapidly expanding fintech solutions, the importance of 'interoperability' has never been higher in the treasury space. The more successful large international banks need to get the open architecture, the open banking, right," he says. "We can't partner with every fintech , but we think the world is changing quickly to the world of open APIs; where we have a responsibility to interoperate across the fintech environment."

And that means looking at banking across everything from HSBC's own online offering, HSBCnet, "to a client's treasury management system to their ERP systems to SWIFT; to ACH payment process providers and to how that universe interoperates to the satisfaction of specific client's priority. Our focus is to support a thriving treasury environment" Mr. Douglas says.

## Fintech investment

Since 2015, HSBC has been a strategic investor in cloud- based treasury management solutions provider Kyriba[3], and it also has investments in procure-to-pay company Tradeshift[4]. And last year it joined forces with GT Nexus, a supply chain management platform that provides companies with end-to- end connectivity, visibility and collaboration with suppliers[5].

So HSBC, like many large global banks, is leveraging third parties within its own platforms to expand service offerings, enhance client experiences, increase efficiency, and reduce cost. One of the offerings HSBC says is an attractive option for clients is its virtual accounts product, which is currently live in the UK and being rolled out in several other markets, particularly in the US.

Virtual accounts have been around for a long time, but they are now being used in a wider context. Mr. Douglas says customers often oversimplify the value of virtual accounts, thinking they only speed up the way in which one can, for example, open an account under the same entity. But they offer much more, he says, particularly if clients explore their value in the context of using them for receivables and payables management, in-house banking and managing liquidity. They also help companies with the thorny issue of having too many physical accounts. Replacing physical accounts with virtual ones, for example, can reduce administrative costs.

With virtual accounts, Mr. Douglas says banks can support multiple purposes for any single bank account. "Through the use of next generation virtual accounts a company has a specific vendor or supplier it needs to receive from and pay to can create as specific virtual accounts and better tracking of receipts and payments." Multipurpose accounts with huge volumes are extremely difficult for large corporations, he says. However, if the company is given a specific virtual account and payables and receivables land in that account, they are much easier to execute, track and reconcile.

Companies can do this very quickly, which then allows them to understand where their cash reconciliation stands. "If you're a company running advanced cash forecasting, then reconciling your future forecasts of cash against your historic receivables is critically important. The faster you can do that the better," Mr. Douglas says.

The advantage of virtual accounts is that the path of that auto reconciliation can more easily be created and identified, That structure can be extended to multiple subsidiaries, each with separate virtual accounts with "cash automatically being pooled."

Mr. Douglas acknowledges this can be done on an Excel spreadsheet or even executed through a company's treasury

management system. But with virtual accounts, companies are drilling down into the data at multiple levels, "and that's the purpose of virtual accounts."

## Bringing Technology Agility Global

A good example of where HSBC is using its technology capabilities is in the natural resources sector, specifically oil and gas. Much of the feedback it has received has helped HSBC refine its product offering to make it more intuitive.

HSBC says feedback is also keeping the bank ahead when it comes to areas where corporations are less mature. "As the banker that sits in the middle, HSBC can help many up- and-coming companies to go international and look at best practices that many of the larger multinational companies are using already"[6].

"I think you'll see that we've undertaken a range of projects at HSBC to develop agile technology for the long-term benefit of the bank and our customers," says Mr. Kawaguchi.

And this is a must, he adds. "The digital age is right here, right now. It's no longer looking at blue skies and what's going to happen. It's happening. And many of the banks, many of our own suppliers, for instance, developers of ERPs or TMS, everyone is going digital; so, if you think about it and look at it from a client's standpoint, everyone is talking digital now, everyone is talking APIs; everyone is talking about open banking and talking about having a seamless connectivity. So you're seeing a convergence between multiple sectors and leveraging some of the best practices that are happening in one area of the company to help in others."

## Adding Sustainability in the Mix

Of course, no discussion of the future of banking and technology can ignore how sustainability enters the equation, and HSBC is helping drive corporate consideration of the trend. For instance, in the shipping sector, which is loaded with lots of paperwork and too much downtime at docks as ships await customs clearance, HSBC is working with partners to speed up the process and make it more efficient overall.

"The digital evolution that's happening right now has a significant impact on sustainability," Mr. Kawaguchi says. HSBC, like others in the banking sector, has recently come out with its own sustainability agenda. "So a key factor and drive for that change is actually digitalisation. If you think about reducing the time ships are docked, there are several studies now where they're talking about the inefficiency of the lag time that's happening" while ships sit idle "because of either paperwork not being reconciled or paperwork not being stamped or vetted."[7].

The customs world itself is also very inefficient and paper- driven, Mr. Kawaguchi notes, so HSBC is working with several corporates, shipping companies and customs houses on a blockchain project to help this part of the shipping process become more straight-through[8].

"All of this helps fosters more sustainability, helps reduce the carbon footprint [of the sector] in addition to taking out the whole paper in the treasury space. All of these efforts add up to a kind of common goal that that has happened on the back of the Paris Accords," Mr. Kawaguchi said.

## The Bank of the Future

No matter where digitalisation is applied – whether virtual accounts, natural resources or shipping – the bank of the future must embrace digital transformation and not look back. "A comprehensive digital transformation is a clear 'no regrets' move to prepare for a digital and data-driven world," states a McKinsey research report from 2017[9]. This means that as banks become more client-centric, they must get comfortable with the open architecture/open banking concept. In fact, their distinctiveness may depend on it, as they strive to enhance the customer experience. They also must continually look ahead to and be thinking of the new digital capabilities that clients will need not just in the next few years but in the next 10 or 20.

Mr. Douglas encapsulates this thinking with an example of one of HSBC's clients starting to embrace robotic process automation. "I think in today's world it is a conversation about not only what services we can provide them but also finding out what our clients are doing around robotics," he says. "We're very interested to find out what they're doing because whenever they employ robotics that means there's some process they're trying to automate or pain point they are trying to eliminate. If we can link to that and help, we become that much more valuable as a service provider." ■

***Virtual accounts have been around for a long time, but they are now being used in a wider context.***

***Notes***

1 (https://www.wsj.com/articles/hsbc-ceo-promises-to-invest-17-billion-in-technology-and-asia-growth-1528725268).
2 (https://www.hsbc.com/news-and-insight/insight-archive/2018/hsbc-best-for-transaction-banking-says-euromoney).
3 (https://www.kyriba.com/blog/jean-luc-robert/welcoming-hsbc-new-investor)
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5 (https://www.theglobaltreasurer.com/2017/07/11/hsbc-and-gt-nexus-partner-to-offer-digital-supply-chain-platform/).
6 (https://www.treasury-management.com/news/1086/hsbc-launches-facial-recognition-banking-for-corporate-customers.html).
7 (https://multichannelmerchant.com/blog/6-effective-steps-to-create-a-sustainable-shipping-environment/)
8 (https://www.bloomberg.com/news/articles/2018-04-18/drowning-in-a-sea-of-paper-world-s-biggest-ships-seek-a-way-out)
9 (https://www.mckinsey.com/industries/financial-services/our-insights/data-sharing-and-open-banking)

# Treasury Convergence

Creating order, efficiency and clarity in a world in flux

## Finance professionals need to adapt to converging macro trends…

### Globalisation dampened by protectionism

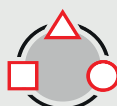
63% of firms with USD0.5-1.0 billion turnover conduct business in 11 or more countries[1]

USD506bn of imports at risk from US tariffs on China[2]

### Rapid regulatory change

Complexity and variations market to market

Focus on data protection and workers rights



### China diversifying for long-term economic growth

China services GDP from 48.1% in 1Q2008 to 56.6% in 1Q2018[3]

### Rise of the millennial generation

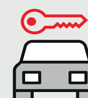
1.8 billion people

35% of the global workforce by 2020[4]

## … and the convergence between technology and business models

### Global online marketplaces

Now 50% of global online retail sales[5]



### The sharing economy

USD23.4 billion in investment in asset sharing platforms in 2016[6]

### E-payments and M-payments

31.2% of card transactions in 2015, expected to grow to 45% by 2019[8]

### The gig economy

162 million independent, gig economy workers in the US and the EU-15[9]

### Smart cities

Connected urban environments delivering efficient services to residents

### Cybersecurity

Widespread technology use leading to increased cyber-attacks

## To adapt, new finance and treasury management priorities are emerging…

- Gaining control and visibility across more complex:
  - Revenue streams
  - Subsidiaries
  - Geographies
- Leverage data on wider range of currencies and payment corridors
- Accommodating faster, real time digital payments and increased micro payments
- Optimising liquidity management with new countries, currencies and new regulations that evolve rapidly
- Agile and efficient management of bank accounts globally
- Rationalisation of bank accounts
- Manage across multiple currencies and FX exposures

## … enabled by new treasury solutions and techniques

### Next generation virtual accounts

Agile and efficient management of accounts and optimised group liquidity

### FX hedging and execution solutions

Integrating FX and payments capabilities for flexibility, process efficiency and cost certainty

### Payment initiatives

Easing the movement of cash, and enabling greater speed and flexibility

### Mobile payments

Enabling new business models for both B2C and B2B firms

### Open Banking and APIs

Creating new opportunities for FinTech innovation and data access

[1] EuroFinance and Swift, The Future of Payments – A Corporate Treasury Perspective
[2] The Economist, 7th April 2018 [3] PWC, China Economic Quarterly, 1Q 2018
[4] The Financial Times, The Millennial Movement, June 2018 [5] yStats, Global E-Commerce Marketplaces, 2018
[6] BCG, Hopping Aboard the Sharing Economy, August 2017 [7] UK Business Insider, 25th June 2018
[8] Capgemini, World Payments Report, 2017
[9] McKinsey Global Institute, Independent Work: Choice, Necessity and the Gig Economy, October 2016

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# Sustainability in Treasury: A View Beyond Financing

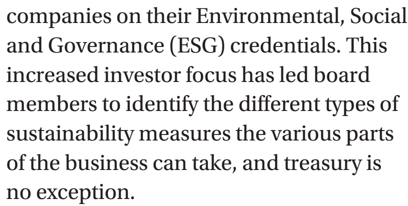
AN HSBC INDUSTRY VIEW

By **Lance Kawaguchi**, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC

**There have historically been questions around whether or not treasuries can actively contribute towards their companies' sustainability objectives. However, in an age where sustainable financing has become more readily available, treasuries now have a seat at the table and are more engaged in helping to drive the sustainability agenda for their firms. As Lance Kawaguchi, Managing Director, Global Head - Corporates, Global Liquidity and Cash Management at HSBC explains, there are several other areas that corporate treasurers can focus on in today's environment to influence their sustainability goals positively.**

In less than twenty years corporate ethics have risen dramatically from something that a handful of large corporates did under the corporate social responsibility (CSR) mantra in a relatively low key manner, to a more comprehensive sustainability approach that is a frequent discussion topic in numerous boardrooms globally.

KPMG's most recent *Survey of Corporate Responsibility Reporting*[1] underlines this point by revealing that formal reporting of CR performance among the G250[2] has risen from 37% of companies in 1999 to 93% in 2017. In a survey commissioned by HSBC, East and Partners found that three quarters of European investors judge



companies on their Environmental, Social and Governance (ESG) credentials. This increased investor focus has led board members to identify the different types of sustainability measures the various parts of the business can take, and treasury is no exception.

## So what can treasury do?

These and numerous other examples of the rise of an Environmental, Social and Governance (ESG) approach to capital management suggest that this is a trend that will persist and extend into smaller corporates as well (the KPMG report revealed a similar CR reporting growth trajectory among N100 companies to that of G250 corporates[3].) In this sustainability-positive environment, every part of a corporation - including treasury - is expected to help advance the corporation's strategic sustainability aims. But what practical CSR steps can treasury actually take?

Aligned with the investor approach, the opportunities open to treasuries today can be divided into three broad categories:

- Environmental
- Social
- Governance

*Treasury's influence on the corporate ecosystem can be used to support the social element of sustainability goals.*

The reasons why treasury can now play a more active role are varied, but include dynamics such as technological innovation, the rising importance of workplace wellbeing and an increasingly fluid regulatory environment.

## Environmental

Recent advances in technology mean that treasuries now have numerous opportunities for making a positive environmental contribution to their corporations' sustainability strategy.

Digitisation is no longer blue-sky thinking, but a practical reality. By adopting electronic transaction processing, treasuries can drastically reduce the amount of paper used by both their own corporation, as well as their corporation's counterparties. In addition to a potential reduction in water pollution, this also has an environmental benefit in terms of emissions, both during paper production and in the greenhouse gases no longer emitted during paper document delivery.

The international trade cycle is something that for many companies today is unnecessarily extended by a combination of the use of paper and the large number of parties involved. Adopting digital processes instead of paper (and in due course also blockchain technology) could appreciably shorten this cycle. Furthermore, treasury's adoption of cloud computing can also have a major impact on the environment. A recent report from WSP and Microsoft[4] concluded that Microsoft Cloud was 79-93% more efficient than a traditional in-house data centre and that Microsoft's Azure Compute had 92-98% lower annual carbon emissions.

All these innovations can be facilitated with the assistance of a banking partner that has not only made its own sustainability commitment to digitisation and the environment[5], but that also has extensive global in-house expertise in these various areas. An additional incentive is that other parties, such as tech vendors and clearing system providers, are also aligned and ready to facilitate this digital transition.

## Social

Treasury's influence on the corporate ecosystem can also be used to support the social element of sustainability goals. An important concept here is the social performance of members of the corporate supply chain. This has become increasingly relevant for business reasons too, as large corporations are now keenly aware of the potential knock-on reputational and commercial damage to themselves of a supplier or customer that has poor ecological or working practices. One approach adopted by some leading treasuries is to apply a minimum ESG requirement for customers/suppliers before onboarding a new relationship. While Know Your Customer (KYC) has traditionally been seen by many treasuries as an issue for banks, a growing number are beginning to see the value of using a KYC approach when applying ESG requirements to their own counterparties.

New tools to facilitate this due diligence process are already becoming available. The US Natural Resources Defense Council (NRDC) and China's Institute of Public & Environmental Affairs (IPE) have launched an IPE Green Supply Chain Map, which links leading multinational corporations to their suppliers' environmental performance. Using publicly available data from the Chinese government, the database and map offer real-time data and historical trends in air pollution emissions and wastewater discharge for almost 15,000 major industrial facilities in China, as well as access to environmental supervision records for over half a million more[6].

Another way in which treasury can send the right social message is in deploying funding initiatives for smaller suppliers. These could range from providing supply chain finance, to offering early settlement terms to suppliers below a certain size, and even perhaps to prepayments for raw materials. While DSO/DPO remain core treasury targets, settlement initiatives for this supplier demographic can deliver an appreciable CSR benefit for a modest working capital cost.

Digitisation and automation in treasury can also provide a social gain for treasury employees. Manual cash management and investment processes result in a heavy workload and unsocial working hours, which ultimately degrade employee well-being and performance. However, if improvements such as automated cash reconciliation and investment have been

implemented, treasury employees will be more productive and under less stress.

## Governance

Treasury obviously plays a key corporate role in risk management - one element of this lies in ensuring compliance with regulation and corporate policies. Apart from safeguarding the company's financial assets, this also helps to fulfil the governance part of ESG.

This risk management can take many forms, from complying with anti-money laundering legislation, to following country-specific rules, such as only invoicing in local currency. Banks continue to be an important channel through which treasury can gather information on changing regulations.

Corruption is another major governance issue that treasury needs to be involved in preventing. In certain countries, corruption is still prevalent, so treasuries need to be especially sensitive to any new countries into which their corporation may be expanding. Treasury's core control and governance role means that it has a major responsibility to block any dubious activities or transactions.

Historically this has sometimes been extremely difficult for treasury to accomplish, but fortunately the new boardroom emphasis on all elements of ESG makes it far more likely that treasurers will have high-level support when they try to stamp out illicit payments, such as kickbacks disguised as commission payments.

Additionaly, cyber security is now increasingly being regarded as a part of ESG governance. This is because it is seen as part of the need for corporate decisions to reflect obligations to society at large, as well as to shareholders, suppliers, customers and employees. Corporations and treasuries that implement robust cyber security measures are implicitly impeding the propagation of cyber threats such as malware. Some academics see the concept of corporations implementing stronger cyber security as part of their CSR as being akin to vaccinating against disease. If sufficient numbers are protected, others also benefit through 'herd immunity'[7].

## Facilitators

While treasury's responsibilities in relation to sustainability may feel like a further burden on what is usually one of the most lightly-resourced corporate functions, there are various factors and entities that will help to facilitate their implementation.

An important point is that several of the actions that support sustainability goals are also those that treasury is likely to be undertaking anyway for other reasons, such as introducing automation to improve efficiency and reduce costs. In many cases these are also actions that certain banks are well-positioned and willing to assist with as part of their existing relationship commitments.

Board-level support has already been mentioned as a facilitating factor that is also likely to persist or increase as more senior managers appreciate the importance of ESG to the corporation. In addition, a comprehensive sustainability approach is also likely to be supported more generally by newcomers to the workforce, both in treasury and the corporate world. Millennials continue to increase as a proportion of the total workforce and are expected to represent 35% of the total globally by 2020[8]. As a group, they place a strong emphasis on the importance and value of sustainability, with one survey stating that 92.1% of millennials believe that working for an environmentally and socially responsible company is important[9]. They are therefore likely to be as supportive of any ESG activities as the boardroom.

## Conclusion

Treasuries have a responsibility to support the overall corporate sustainability strategy, but many may not realise that the organisations they deal with on a daily basis – their banks – can be a valuable source of information and assistance with this task. Digitisation, automation, accelerating the trade cycle and cloud treasury systems are just some of the areas that banks can help with.

Elsewhere, treasuries may find they are pushing a sustainability door that is more open than they realised, with other groups such as technology providers, senior management and employees also being supportive. All of this leads to the conclusion that treasury can make a real difference to sustainability goals and can start working on implementing changes. ■

***Digitisation, automation, accelerating the trade cycle and cloud treasury systems are just some of the areas that banks can help with.***

***Notes***

*1 https://assets.kpmg.com/content/dam/kpmg/be/pdf/2017/kpmg-survey-of- corporate-responsibility-reporting-2017.pdf*
*2 The G250 are the world's 250 largest companies by revenue based on the Fortune 500 ranking of 2016.*
*3 The N100 is defined in the KPMG Survey of Corporate Responsibility Reporting as: "...a worldwide sample of 4,900 companies comprising the top 100 companies by revenue in each of the 49 countries researched in the study."*
*4 "The Carbon Benefits of Cloud Computing: A Study on the Microsoft Cloud" https://www.wsp.com/en-US/insights/microsoft-cloud-computing-environmental- benefit-study*
*5 In addition to major investments in digital technology and automation, HSBC has also recently launched a new energy policy - https://www.hsbc.com/-/media/ hsbc-com/newsroomassets/2018/pdfs/180420-hsbc-energy-policy.pdf?la=en-gb&hash=2BE95DA2F82B9EF99AFF93A05566ECAE8E1774E6 - that aims to reduce environmental damage by no longer providing financial services to five categories of potentially damaging energy related activity.*
*6 https://www.nrdc.org/media/2018/180103 and http://wwwen.ipe.org.cn/ MapBrand/Brand.aspx?q=6*
*7 https://www.straitstimes.com/opinion/corporate-social-responsibility-should- include-cyber-security*
*8 https://www.manpowergroup.com/millennials*
*9 https://www.morningfuture.com/en/article/2017/08/16/millennials-csr- companies-responsible/60/*

AN HSBC INDUSTRY VIEW

# OceanaGold: Future Proofing Growth

By **Lance Kawaguchi**, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC and **David Andrada**, Global Sector Head – Natural Resources & Utilities, Global Liquidity and Cash Management, HSBC

**At HSBC, we partner with our clients across industries and markets, with an extensive on-the ground network of senior bankers with an in-depth understanding of their sectors. The following is a client example of our partnership in the Natural Resources, Utilities and Chemicals sector. As a global business that is growing quickly, multinational gold producer OceanaGold needs a scalable, flexible, cash management and liquidity investment infrastructure.**

So, when a reshuffle in its banking group triggered the decision to select a new primary cash management bank, OceanaGold chose HSBC.

In mid 2012, OceanaGold refinanced its debt facilities and reviewed its banking relationships. At the time, the company had mining operations in New Zealand and was constructing a mine in the Philippines, managed from its headquarters in Melbourne, but further international expansion was already in prospect. The company therefore decided to put out a formal tender for a new global cash management provider.

## Mandate award

The tender process started in September 2012 and concluded in February 2013 when OceanaGold announced that it was awarding its cash management mandate to HSBC. A number of factors played into this decision, one of which was banking platform consistency. “We were previously having to use two different cash management platforms from the same provider, which was challenging,” says Matthew McConnell, OceanaGold’s Group Treasurer. “The two systems weren’t compatible and required separate login credentials and tokens, so the global consistency of HSBCnet was appealing. In addition, we had received positive feedback on HSBCnet from our Philippine operations where it was already in use.”

A single global cash management partner would also streamline day to day treasury operations. This was particularly relevant in view of the company’s ongoing expansion, as considerable efficiencies and cost savings could be achieved if future acquisitions did not result in the proliferation of banking relationships. A banking partner such as HSBC, with a global footprint that could support likely future OceanaGold acquisitions, would minimise the risk of this.

Finally, OceanaGold maintained various cash balances across its businesses, including one in Philippine peso (PHP). Therefore, a banking partner that could offer interest compensation that reflected the level of all balances globally – including PHP – would be adding value.

HSBC’s Interest Enhancement Facility (IEF) met this criterion. IEF enables clients to obtain preferential credit interest rate terms on global balances. As mentioned above, this was particularly pertinent for OceanaGold in view of its operations in the Philippines and its PHP balances there. In addition, the company held USD from its gold sales, as well as NZD, AUD and CAD.

“The IEF was a neat solution for our needs,” says Matthew McConnell. “Its notional nature is a better fit for us in terms of flexibility than a solution involving physical movement of cash and also incurs less management overhead from a treasury perspective. We also like the fact that it enables us to make the best use of any float we have, while simultaneously maximising yield.”

## Implementation

The implementation, which involved incorporating OceanaGold bank accounts globally into an IEF structure, was successfully completed in early 2014. A key element in the implementation’s success was that HSBC’s implementation manager was based in the company’s head office location of Melbourne.

This proved to be of considerable value as the implementation progressed. A common issue in sectors such as natural resources and utilities (NRU) is that the often globally dispersed nature of the business can make global banking implementations a major headache for corporate treasuries. A global treasury based in the head office location finds itself having to monitor and manage implementation activities in remote locations and time zones.

For the OceanaGold implementation, HSBC appointed its Melbourne implementation manager as the global communication manager for the project. This meant that the company had a single local point of contact for all information and activities relating to the implementation globally. The HSBC global communication manager liaised with colleagues in offices in New Zealand, USA, Canada and the Philippines to streamline the implementation process. “This arrangement definitely made life easier for us than having to deal with multiple HSBC contacts globally during the implementation,” says Matthew McConnell.

## Relationship evolution

Since the implementation, the advantages of having a single global banking relationship with HSBC have been underlined by the bank’s support for the company’s M&A growth. For instance, when the company added to its presence in New Zealand by acquiring the Waihi Gold Mine on New Zealand’s North Island, it opted to transfer its banking to HSBC to further leverage the benefits of its IEF

*This has validated the view we took during the RFP that a partner who could support our growth trajectory and new locations would add value in terms of future-proofing.*

**Matthew McConnell, Group Treasurer, OceanaGold**

structure and a single HSBCnet login for control/visibility. HSBC had the necessary new banking facilities up and running for Waihi within a month. The company made the same decision, when it made its first US acquisition, with the Haile gold mine in South Carolina. When new bank accounts and corporate cards were required, it turned to HSBC to transition the banking services. "This has validated the view we took during the RFP that a partner who could support our growth trajectory and new locations would add value in terms of future-proofing," says Matthew McConnell. The Haile gold mine is now up and running with HSBCnet, travel and expenses cards, ACH, wires, reporting, statement viewing and file upload. Day to day operation of the account is handled locally, but OceanaGold's central treasury in Melbourne also has visibility on, and access to, the account.

Another development in the evolution of the relationship between OceanaGold and HSBC has been the refinement of the company's IEF. At the time of the tender, the company's anticipated credit balances were relatively modest. However, largely due to a significant increase in production, its actual credit balances have been three to four times the level originally anticipated. In response, HSBC revised the interest rate tiers in the company's IEF by adding two tiers on top of the original three, as well as adding new accounts for the new acquisitions in the USA and New Zealand, so the company could fully benefit from its larger cash balances.

More generally, the IEF has proven a good fit with OceanaGold's day to day business operations. The company needs to maintain local currency balances in all the countries in which it operates in order to meet operational expenses. As a gold producer, the company's primary receivables currency is USD. Apart from the specific benefit the IEF provides in relation to OceanaGold's Philippine peso balances, the facility is also convenient as regards the company's focus on reducing bank debt. As soon as cash accrues in Australia it can be used to repay debt or fund acquisitions. In practical terms, the company treasurer regards the IEF as a more appropriate solution for the company's needs than the alternative of sweeping or pooling structures. Furthermore, keeping convenient track of balances is trivial via HSBCnet.

## Client profile: OceanaGold

OceanaGold Corporation is a mid-tier, multinational gold producer. Over the years, the company has built up extensive global operating and development experience in low-cost production. OceanaGold owns a portfolio of geographically diverse, high-quality assets in the Philippines, New Zealand and the USA.

The company has a strong commitment to sustainability and has operated in accordance with this for more than a quarter of a century, in doing so building a strong reputation for responsible environmental management and community engagement. It works collaboratively with valued stakeholders to identify and invest in social programs that are designed to build capacity beyond a mine's life cycle.

The company's most recent acquisitions have been the high-grade Waihi Gold Mine on New Zealand's North Island and – through the purchase of Romarco Minerals – the top-tier Haile Gold Mine in South Carolina, USA. In October 2017, the company announced the declaration of commercial production at Haile.

OceanaGold has a significant pipeline of organic growth and exploration opportunities within the Asia-Pacific and Americas regions and has also made strategic investments in two juni or exploration companies – Gold Standard Ventures and NuLegacy – both focused on projects in Nevada, USA.

***Having a client coverage in key hubs to support our Natural Resources, Utilities and Chemical clients is vital to ensure we deliver the adequate support to our clients for their liquidity and cash management needs globally. This has been a clear success throughout our relationship with OceanaGold.***

**David Andrada, Global Sector Head, Natural Resources & Utilities, Global Liquidity and Cash Management, HSBC**

## Recent developments

While HSBC has been providing OceanaGold with travel and expenses cards for some time, the company is also in the late stages of going live with the bank's MiVision online card management platform. This will give the company's administrators and card-holders considerable flexibility and convenience in the day to day operation of cards. In addition to reporting functionality, administrators can request single/ multiple cards themselves or by automatically requesting holders to complete an application. They have granular control of limits in real time, as well as card/PIN replacement and numerous other controls. Cardholders also have extensive control, including requesting card/PIN replacements, updating billing/personal details and requesting cards be sent to third party addresses (such as a hotel, if a card is lost/stolen while travelling). MiVision can also be connected to ERP or other corporate systems for automated data transfer.

The relationship between OceanaGold and HSBC has also continued to evolve in terms of day to day operations. A recent example was where an issue arose with TT remittances from the US to OceanaGold's account in New Zealand always arriving a day late due to the international dateline. HSBC's local client service manager took the initiative and discussed the problem directly with the paying bank and agreed a solution whereby the remitter would schedule the payments a day earlier so they would arrive with the correct value date. ■

## Conclusion

OceanaGold's partnership with HSBC exemplifies the company's desire to maximise its strategic agility when making acquisitions. New businesses can be readily rolled into existing infrastructure, such as HSBCnet and the company's IEF. This not only reduces the turnaround time on acquisitions, it also maintains straightforward visibility and control, as well as maximising return on corporate cash.

*"Finally, there's also the consideration that we can have the best of both worlds when it comes to service," says Matthew McConnell. "In-country, local language support and expertise are available, but if an issue cannot be resolved there, it is straightforward to raise it to a global level for resolution."*

# Latin American Cybersecurity: A Fast-Growth Priority

AN HSBC INDUSTRY VIEW

By **Lance Kawaguchi**, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC and **Carlos Gonzalez Fillad**, Managing Director, Regional Head of Latin America, Global Liquidity and Cash Management, HSBC

**The recent cyber breach of five firms in Mexico and the USD15m exploitation of their connections to the SPEI[1] domestic payment system[2] have placed a spotlight on Latin American cybersecurity. However, while the losses may have raised awareness in the region, there is still much work to be done by corporates and their treasuries to prevent this sort of breach becoming more commonplace. Lance Kawaguchi, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management and Carlos Gonzalez Fillad, Managing Director, Regional Head of Latin America, Global Liquidity and Cash Management at HSBC, examine the current cybersecurity landscape in the region and explore some of the best practices for cyber risk mitigation.**

## The cyber landscape

***Corporate awareness and activity***

Even before recent events in Mexico, which followed similar breaches from around the globe, corporate treasurers were becoming increasingly concerned about cybersecurity issues. A report by Celent[3] in November 2017 revealed that 82% of treasurers cited cybersecurity as their number one concern. Yet despite this, corporate preparations appear less than comprehensive, as the report also revealed that globally:

- 70% of organisations have not developed a cyber-incident response plan
- 46% of organisations have not implemented or enhanced their phishing awareness training for employees in the past 12-24 months
- 43% of organisations lacked board-level responsibility for the review and management of cyber risk
- 37% of organisations have not yet estimated the financial impact of a cyber attack
- 34% of organisations do not assess their suppliers or customers for cyber risk

Based upon various conversations with HSBC clients in Latin America, it seems likely that these figures would probably also be regionally representative. However, the picture is extremely varied, with a small percentage of treasuries having a sophisticated cybersecurity approach, a larger group who are increasingly cyber-aware, but a majority where both awareness and activity are low.

In general, these groupings seem to reflect the corporate demographic, with the largest corporations typically being the most active, while the large number of smaller companies are less active. However, irrespective of size, companies that trade internationally seem to be more cyber-aware than purely domestic organisations.

At one end of the spectrum, companies may be taking minimal or no cybersecurity measures, but even where companies have put security processes in place, control gaps still exist. For example, treasury staff may lend each other security tokens, or access to vendor data may not be stringently controlled. There is therefore a need not only to raise cyber awareness but also to be discovering and implementing global best practice. In both cases, there is definitely an important role for banks to play in supporting clients. This has been very apparent from the strongly positive response of Latin American corporate treasuries to cybersecurity events and information sharing offered by HSBC.

***Government awareness and activity***

The response of governments in the region to cybersecurity is almost as diverse as that of corporates. Mexico has been among the most active. Even before the recent attacks, Mexico's central bank had set out rules relating to the SPEI system that required financial institutions to have emergency response protocols prepared that would be triggered in the event of a cyber attack[4]. The central bank has also announced the formation of a dedicated cybersecurity unit that will design and issue information security guidelines to the country's banks.

Elsewhere, the Argentine government has already started working on cyber initiatives, including a cyber-policy partnership with the US[5]. Despite these initiatives, there is still room for improvement in other Latin American countries, with a recent World Economic Forum paper reporting that Latin America was particularly vulnerable to cyber attacks and that many countries in the region still lacked the capacity to respond to major cyber incidents[6]. This is perhaps understandable, because until now the primary focus for much of the available government (and bank) resources in Latin America has been focused on inhibiting the laundering of physical cash by narcotics cartels.

This further underlines the value of being able to rely on the support of a banking partner that has made a substantive investment and commitment to cybersecurity and that is open to sharing its knowledge of global best practice. In addition, as more Latin American companies expand into new trade corridors, the geographic extent of these capabilities across trade corridors will become increasingly important. For example, if a Mexican company has a business unit in China and there is a cyber attack there, the company will value insight on the Chinese cyber situation that can be

***The response of governments in the region to cybersecurity is almost as diverse as that of corporates.***

*Treasury is also an extremely attractive target for the theft of financial and commercial data.*

provided at the head office in Mexico, as well as elsewhere.

***The value of data***

Treasury's control of cash makes it an obvious target for hackers. However, what is less commonly realised is that direct monetary loss may not actually be the biggest risk: treasury is also an extremely attractive target for the theft of financial and commercial data. The potential reputational and indirect financial losses from this could be far more severe than a straightforward cash theft.

The data stolen could be sold on for commercial advantage, such as in bidding for a contract where knowing a competitor's key price points is a major advantage. However, in industries such as aviation, there is also real concern that stolen technical data could be used for exploits, such as hijacking an aircraft.

More generally, while the average Latin American citizen may not regard corporate cash loss through cyber theft as of particular concern to them, they are definitely becoming much more aware of the personal risks to them of corporate or government cyber data theft. The last few years have seen a steady trickle of security failures by store chains, credit reporting agencies and government bodies. While the exact extent of the damage depends upon the data stolen, in some cases individuals had their identity data completely compromised, rendering them exceptionally vulnerable to identity theft. These individuals are unlikely to trust these organisations again, but the most severe failings may also have fundamentally undermined the integrity of the cyber ecosystem and its methods of identity validation[7].

***Interconnection risk***

In the case of treasury, this data loss risk has become more acute in recent years as its role has changed. Twenty years ago treasuries were far more detached from the rest of the business (in terms of both technology and processes) than they are today. Treasuries typically now play a much greater consultative role in the business, which coupled with the ubiquity of enterprise resource planning (ERP) systems makes them more closely integrated with the rest of the business and thus a highly attractive target for the theft of both cash and data.

Greater technical connectivity and the rise of straight-through processing have unfortunately also given hackers a new attack vector. When a client submits a payment file to their bank, the bank processes it automatically. Therefore, if attackers manage to hack a corporate ERP system they could alter payment files to send payments to bogus vendor bank accounts that they control. A similar risk applies to treasury management systems. In both cases, having access to process consulting that includes qualified local language in-country specialists in ERP and treasury management systems can help in identifying and rectifying potential vulnerabilities in existing systems. However, as a growing number of Latin American corporates transition from paper to electronic processes, these specialists can also be invaluable in supporting secure initial system setup.

A bank that is capable of offering this breadth and depth of expertise can also add value by helping a corporation to do its own due diligence on its trading partners. A corporate may be secure, but if its suppliers or customers (and their counterparties in turn) are not, then the corporate itself is also indirectly at risk. The good news here is that a bank that operates globally across all categories and sizes of client will have conducted its own due diligence on each of them. While this obviously doesn't offer a strict guarantee, the extensive scope of this counterparty scrutiny offers a measure of comfort to companies conducting their own due diligence if they know their counterparties also bank with the same reputable bank as themselves.

***The weakest link: people***

Technology measures, such as ensuring all network devices have the latest patches applied or installing deception technology, are undoubtedly an important element in effective cybersecurity. However, the benefits of these can be (and often are) completely negated by the human element, so a more holistic approach is needed that also accommodates this. Individuals still persist in clicking on phishing links or committing similar security indiscretions, thus giving hackers their opportunity.

Hackers are well aware of this

unfortunate tendency. While they can and do automate scanning for technological shortcomings (such as unpatched hardware), they increasingly realise that carefully crafting a credible looking email with poisoned links to an individual within a company is likely to prove a more rewarding attack vector. In many cases, rather than technology, people (or the business processes they are responsible for) can be the weakest cybersecurity link.

Verizon's most recent annual Data Breach Investigations Report[8] analysed 53,000 actual cyber incidents, which included 2,216 confirmed data breaches across 65 countries. One of the report's key statistics was that 4% of phishing campaign targets would click a phishing link. Furthermore, this behaviour was persistent: someone who clicked a link once was more likely to do so again in the future.

One of the biggest challenges here is changing corporate culture. While individuals will take a measure of personal responsibility for physical risk in their organisation (such as sounding a fire alarm upon discovering a fire) this behaviour often doesn't apply to cyber risks. Instead, the mindset seems to be: 'the organisation takes care of all that, I don't need to do anything'. Nothing could be further from the truth. Individuals have a personal responsibility at many levels, especially since the personalisation of attacks makes it easier for cyber criminals to succeed. Private indiscretions on social media today will boost the effectiveness of socially-engineered spear phishing attacks tomorrow.

This indifferent attitude of many individuals to their personal cyber responsibilities is alarming given that cyber crime continues to increase at a meteoric rate (partly because of the attractive risk/reward ratio for perpetrators when compared to physical crime). Just one example of this cyber crime growth in Latin America comes from statistics on Brazil in the AWPG's most recent quarterly report[9], which included:

- a 379% increase in phishing (430 in Q3 versus 1,631 in Q4)
- a 245% increase in scam websites (2,562 in Q3 versus 6,293 in Q4)
- a 247% increase in social media-based scams (1,909 in Q3 versus 4,724 in Q4)

***Effective cyber training***

Security awareness training, phishing tests, plus changing the corporate culture, are all valid steps in protecting against these threats, but a key point here is repetition. Organisations such as the InfoSec Institute recommend that best practice is to repeat security awareness training every 90 days.[10] However, repetition will only be really effective if personnel also understand the reasoning behind the security processes they learn about during cyber training. Personnel circumventing secure measures in the interests of convenience is a common problem, but one that is less likely to occur if they understand the purpose and value of such measures.

While there are many generic good practices, training also needs to contain an element of role-specific material. For example, a software developer who never leaves the office faces different threats from a sales person who often works from home. Cyber fraud attempts will also often be role-specific, such as treasury or finance personnel receiving bogus payment instructions seemingly from senior management via a faked email address. These types of attack have unfortunately been successful in the past, but the training required to prevent them is not especially onerous.

Alongside training, there is the need for internal measures to prevent corrupt employees from deliberately initiating or assisting cyber crime. Rigorous employee vetting can help, but also needs to be supported by other measures, such as whistle-blowing policies and technological solutions.

Another key point is the sharing of best practice and expertise, both internally and externally. For example, due to the nature of their role, treasuries have a strong control background and can add value by sharing that mindset with other functions that do not.

The global nature of cyber threats also needs to be incorporated into corporate security strategy and training. Companies with overseas subsidiaries face a particular challenge here, but the value of rapid information exchange is equally applicable to purely domestic entities. A new and successful type of attack in one country is likely to be re-used elsewhere around the globe shortly thereafter. In some recent attacks, such as Petya, the speed of spread both within corporations and globally has been extremely rapid: on one global corporate's network, 62,000 servers and workstations were knocked offline by Petya within an hour[11]. A global banking partner can be indispensable in a situation like this if it is able to aggregate the cybersecurity information it collects across its entire network in real time and can share it with clients wherever they require.

***Investing in business continuity***

Although the statistics in the Celent report on the lack of board-level responsibility for cybersecurity are hardly encouraging, there are signs that this attitude is changing. From client conversations it appears that more boards are now accepting cyber responsibility and more treasuries are allocating budgets for cybersecurity, both within treasury as well as in the business more generally.

A robust strategy coupled with investment in both technological and personnel cybersecurity measures can do much to make a corporation relatively unattractive for targeted attacks and less vulnerable to generic attacks. However, it is unsafe to assume that even the most stringent measures will guarantee

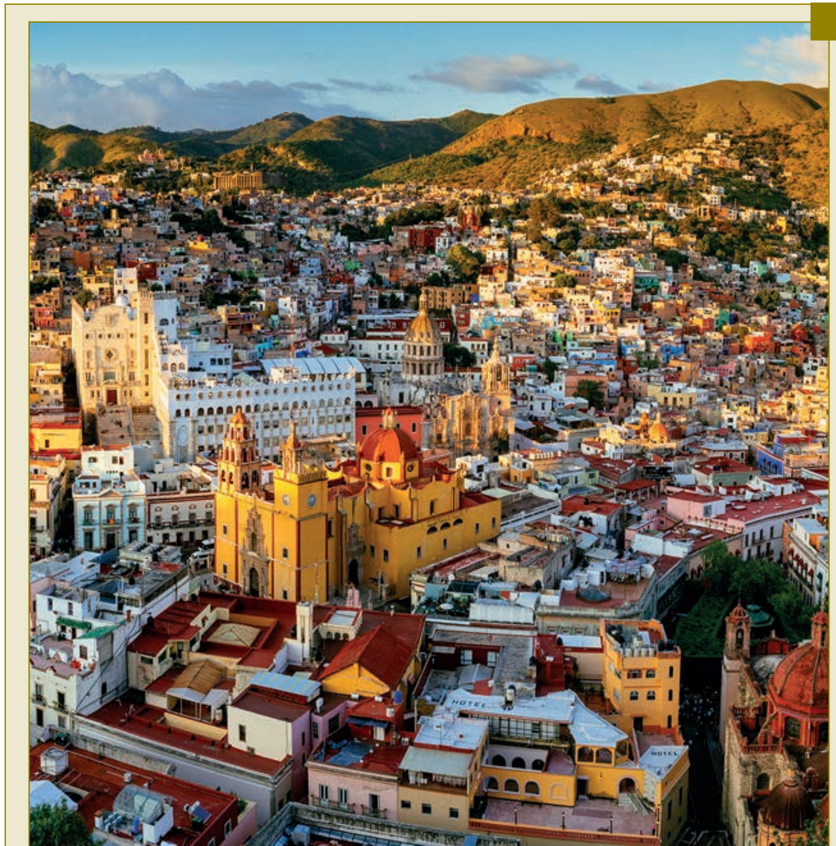
***In many cases, rather than technology, people (or the business processes they are responsible for) can be the weakest cybersecurity link.***

invulnerability, so having a business continuity plan (BCP) that incorporates cyber as well as physical threats is essential. This needs to include measures that will enable the business to function (even if only at a basic level) while the clean-up takes place. (It may also include sharing information on the attack with trusted partners so that they can share information anonymously with other parties to hinder further external propagation of the attack.)

In the event of a serious attack, it is possible that the company's usual processes for making payments will be out of action. For instance, HSBC has seen at least one example of a Latin American client whose ERP was the subject of a ransomware attack, leaving it unable to pay staff salaries and suppliers. HSBC assisted by scanning its own systems to retrieve details of previous transactions and payee details. Then using a highly secure manual payment process provided by HSBC, the client was at least able to make the majority of the necessary payments.

In this example, HSBC provided the workaround on an ad hoc basis, but having a back-up process of this nature in place as part of a cyber BCP makes sense. However, accomplishing this requires the support of a bank that has a deep understanding of how the business functions and the nature of its financial flows and can leverage that on the client's behalf in a cyber crisis.

For many Latin American companies, the priority in recent years has been growth, so their focus has typically not been on developing a cyber BCP, even though they may already have a BCP for physical risks. Partly driven by recent cyber events, this attitude is gradually starting to change. In some cases they are beginning to appreciate that growth through acquisition may require a separate cyber BCP in its own right. A company's existing measures, processes and personnel may be relatively secure, but what about those of an acquisition it makes? These need to be evaluated, ideally by expert process consultants who can identify any weaknesses in processes and technology, and recommend appropriate remedies. An acquisition may need to be an additional element in a cyber BCP that will require updating as the acquisition is on-boarded and its systems and processes transition to those of the acquirer. ■



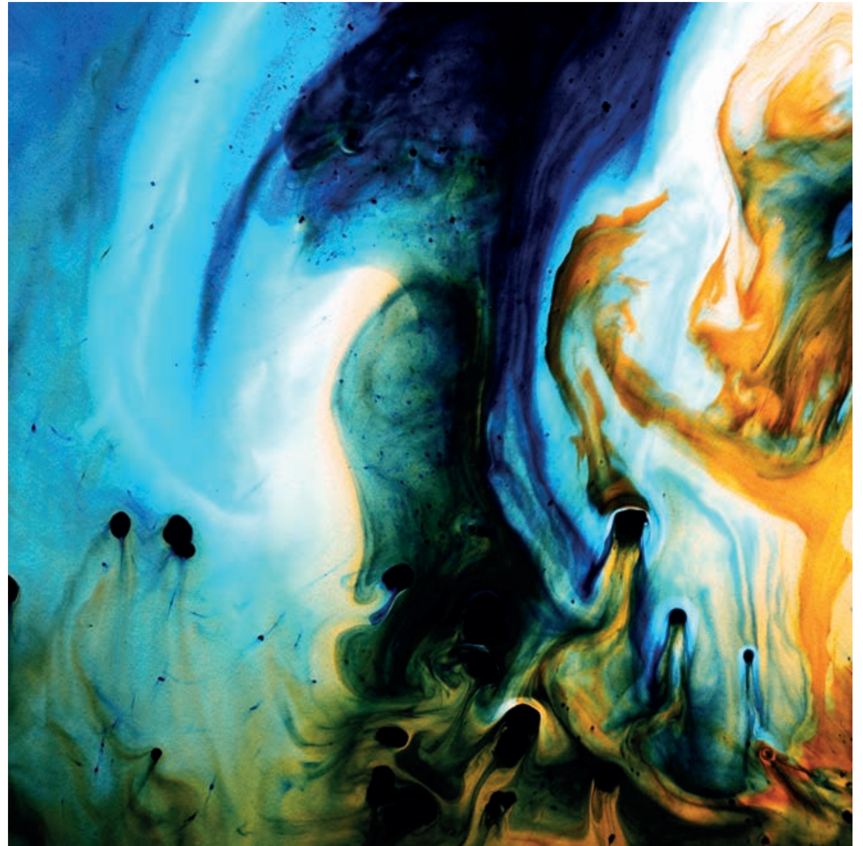
## Conclusion

Latin American companies and their treasuries are increasingly keen to learn more about cybersecurity best practice and how to implement it. However, an important factor in achieving this is to understand that this is an ongoing process (not a 'fit and forget') - as is any investment required to support it. It is therefore not unreasonable for these companies to expect a similar (or greater)level of cyber commitment from their banks. It is not just that corporates understandably need to feel that their banks are following best cyber practice in handling client data and payments, but that they are also leading it and sharing it globally. This could cover a broad spectrum, ranging from news of attacks and possible mitigation methods, to the development of new authentication methods such biometrics. Having access to this sort of expertise as part of a close working relationship can add significant value for a corporate trying to develop, implement or extend a cybersecurity strategy.

***Notes***

1 *1 Sistema de Pagos Electrónicos Interbancarios*
2 *https://www.bloomberg.com/news/articles/2018-05-29/mexico-foiled-a-110-million-bank-heist-then-kept-it-a-secret*
3 *"Combatting Treasury Fraud: External Forces Changing the Cybercrime and Cyberfraud Landscape", Celent, November 2017*
4 *https://www.bloomberg.com/news/articles/2018-05-29/mexico-foiled-a-110-million-bank-heist-then-kept-it-a-secret*
5 *https://www.state.gov/r/pa/prs/ps/2017/04/270496.htm*
6 *https://www.weforum.org/agenda/2018/03/this-is-the-biggest-threat-to-latin-america-s-digital-transformation/*
7 *https://blogs.scientificamerican.com/observations/the-equifax-hack-bad-for-them-worse-for-us/*
8 *https://www.verizonenterprise.com/resources/reports/rp_DBIR_2018_Report_execsummary_en_xg.pdf*
9 *http://docs.apwg.org/reports/apwg_trends_report_q4_2017.pdf*
10 *https://resources.infosecinstitute.com/security-awareness-course-design-best-practices/#gref*
11 *https://cloudblogs.microsoft.com/microsoftsecure/2018/01/23/overview-of-rapid-cyberattacks/*

*Our sectorised focus has enabled us to better understand clients like AkzoNobel and link their needs with trends in the industry.*



# AkzoNobel: A Journey with HSBC – Building a Strong Partnership

AN HSBC INDUSTRY VIEW

By **David Andrada**, Global Sector Head – Natural Resources & Utilities, Global Liquidity and Cash Management, HSBC

## Treasury Transformation: Delivering Value

Our journey with AkzoNobel started in 2007, when they embarked on a treasury transformation project called 'One Finance', with the intention of achieving a number of key objectives for their finance function:

- To operate and be benchmarked as 'best in-class' level versus our peer group
- To provide comprehensive support to their businesses
- To maintain integrity
- To meet their corporate values.

The project was demanding and entailed changes to their banking infrastructure, technology, treasury policies and relationships with business units.

As part of One Finance, AkzoNobel floated an Asia cash management RFP in 2009 with the intention of increasing visibility of cash, improving cash flow

***In view of its extensive network, HSBC was appointed by AkzoNobel as the company's primary banking partner in a broad range of regions and countries.***

control, enhancing cash management and FX efficiency and standardising documentation under global and regional groupings.

In view of its extensive network, HSBC was appointed by AkzoNobel as the company's primary banking partner in a broad range of regions and countries:

- **Asia Pacific**: China, Hong Kong, Indonesia, Japan, Singapore, Philippines, Taiwan and Vietnam
- **Middle East**: Bahrain, Egypt, Qatar, Turkey, Saudi Arabia and United Arab Emirates
- **Latin America**: Mexico and Argentina as part of subsequent RFP's for the respective regions.

In order to meet AkzoNobel's objectives, the solutions that HSBC needed to deliver included a single centralised electronic banking platform, Payment on Behalf of (POBO), payment in the name of and cash pooling structures. In order to accomplish these implementations successfully, it was apparent that close collaboration would be required. This was accomplished by a combination of detailed dialogue and robust project governance by the steering committee, which established a shared vision and goal. This meant that HSBC understood the requirements and was well prepared from the outset to partner and provide strategic advisory during the transformation journey.

The project included design and development of various SAP treasury modules, such as in-house cash, payments factory, treasury risk management, and SAP XI, together with the application of XML ISO 20022, MT101/940 messages and SWIFTNet through a Service Bureau. Once implemented, these would improve control over cash flow as well as enhance cash management and foreign exchange execution.

An in-house bank structure was deployed in Asia Pacific and zero balancing structures were implemented from all open and semi-open economies into Singapore, where POBO and payments in the name of are executed.

The benefits captured by successfully implementing these solutions have been substantial. AkzoNobel has been able to reduce the number of bank accounts it holds by 50%. Furthermore, by streamlining processes it has been able to lower foreign exchange and transactional charges by nearly 70%, as a result of economies of scale and straight-through processing. An important consequence of these improvements has been that they have been able to enhance their capital structure by substantially reducing net debt and freeing up working capital.

## Recent developments

In addition to the cash management mandate, in March 2014 HSBC was awarded the sole bank mandate for trade finance activities, which included letters of credit and guarantees. (All these were previously managed locally by each entity,

resulting in an inefficient process.) The mandate spanned 14 countries in Asia Pacific, with AkzoNobel NV borrowing under a single umbrella facility.

AkzoNobel has also revisited the management of foreign exchange risk in a search for further improvements, which has since resulted in the introduction of centralization of hedging exposures for restricted currencies in Asia Pacific. Pre-agreed margins have been established up to certain thresholds with HSBC, after which Bloomberg FxGo is used for competitive bidding and transaction execution.

## A strong relationship: now and into the future

Over the past five years AkzoNobel and HSBC have built a robust and trusted relationship.

Core to the success of the relationship has been HSBC's open approach, consistent engagement, insights on best practices, regulatory guidance and innovative market-leading solutions. This has enabled them to leverage HSBC's insights to adapt their business agenda in response to an era of shifting economic powers and volatility in the business environment. "Our sectorized focus has enabled us to better understand clients like AkzoNobel and link their needs with trends in the industry" says David Andrada, Global Sector Head, Natural Resources and Utilities, Global Liquidity and Cash Management at HSBC.

Asia Pacific, and particularly China, continues to be an important and growing market for the company, where their banking requirements and the solutions needed to satisfy them are continuously evolving. AkzoNobel has also recently announced the separation of its Speciality Chemicals business, where HSBC is providing cash management advisory and subsequent implementation.

"Our relationship with HSBC has grown significantly since 2012 and the team demonstrates good collaboration and delivers commitments on time," says Eva Pang, Head of Treasury at AkzoNobel. "Trust is one of the core components that has helped to build our strong and enduring business relationship. Therefore, while the company has already achieved considerable benefits from the transformation, we look forward to continuing our partnership with HSBC to bring further value to our businesses."

"Our relationship of more than five years with AkzoNobel is a testament to our strong advisory, implementation and ongoing services, which are key elements for a successful start and longevity in any cash management relationship," says Syed Zohair Ahmed, Senior Vice President, Global Liquidity and Cash Management at HSBC Singapore. "AkzoNobel and HSBC will continue to explore opportunities to expand and further strengthen the partnership. With an evolving regulatory landscape and our investment in innovation on the rise, the journey continues." ■

## About AkzoNobel

AkzoNobel is a leading global paints and coatings company and a major producer of speciality chemicals. Customers around the world use their brands and products. Some of these are household names, while others are more specialised products, but they share a common purpose to create everyday essentials that make people's lives more liveable and inspiring.

The company announced the sale of its Specialty Chemicals business in March 2018 and is expected to complete the transaction by the end of the year.[1]

Today, AkzoNobel is a EUR 9.6bn company with over 35,000 employees.[2]

***Notes***

1. *https://www.akzonobel.com/en/for-media/media-releases-and-features/akzonobel-sell-specialty-chemicals-carlyle-group-and-gic-eu101*
2. *https://www.akzonobel.com/en/for-investors/for-investors-overview*

# Liquidity Management: A Whole New World

AN HSBC INDUSTRY VIEW

By **Lance Kawaguchi**, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management, HSBC

**While the treasury environment is never static, one area where it has become particularly dynamic of late is liquidity management. Multiple drivers have combined to create a situation where continuous (re)evaluation and evolution have become almost mandatory. Lance Kawaguchi, Managing Director, Global Head – Corporates, Global Liquidity and Cash Management at HSBC examines these factors and how they are affecting the process of liquidity management.**

## Change drivers

**Macroeconomic factors**
One of the most striking changes in corporate liquidity in recent years is its sheer volume. In the aftermath of the financial crisis, corporate treasuries worldwide put huge efforts into freeing up cash from within the business and have continued to do so. More recently, the global economy has also been picking up, with global GDP growth of 3.2% in 2017 (up from 2.5% in 2016) and some commentators forecasting growth of 3.3% for 2018[1]. As a result, the level of cash on corporate balance sheets has now reached exceptional levels: USD1.8trn in the US and EUR974bn in Europe, the Middle East and Africa, while collectively the 25 most cash-rich corporates globally hold just under USD829bn of cash[2].

At the same time, interest rates in various countries have started to rise. The US is the most prominent in this respect with the Fed Funds rate now at 2%[3], up from 0.25% in late 2015[4]. In addition, the Federal Reserve has signalled that it will raise rates to 2.5% in 2018, 3% in 2019, and 3.5% in 2020[5]. A diverse mix of other countries are also forecast to raise rates by Q2 2019 including China, Brazil, Mexico, the UK, India, Canada, South Korea, Indonesia and Japan[6].

Therefore, treasurers now have high cash levels, plus the opportunity in a growing number of countries to obtain better yields on that cash. This combination is a strong reason to revisit and update their existing liquidity management practices.

**Mobilising liquidity: instant payments**
Other factors are also giving treasurers more reason to undertake this now. As instant payment systems proliferate and the velocity of cash movement continues to rise, multiday clearing cycles are rapidly becoming a thing of the past. There are now 45 instant payment systems in production globally, with a further 11 being planned[7]. The near-instant capabilities of these systems are opening the door to new investment opportunities: treasurers will be able to invest cash for the short term that previously would have taken too long to mobilise, and/or be able to access longer, better yielding tenors. Individual transaction limits are a hindrance here, but these are becoming less of a problem. For instance, the UK's Faster Payments system ran successful tests in July 2017 with 16 participants with GBP20m payments and is expected to increase its transaction limits during 2018[8]. Elsewhere, the new instant payments system in the Netherlands, which is due to go live on May 1 2019, will process unlimited amounts[9].

A further consideration is that instant payments currently operate on a nationwide basis, but it seems likely that they will continue to evolve to the point where they also function cross-border. Taken to its logical conclusion, this could mean that treasuries would be able to mobilise balances in unrestricted currencies globally in near real time at minimal cost, which compares favourably with alternative mechanisms such as correspondent banking.

**Internationalisation**
Corporate business strategies have been another important factor driving the need to review liquidity management. International expansion of businesses means that many treasuries are continually having to accommodate new countries and currencies into their liquidity structures, or remove them in the case of disposals. They also have to do this while complying with local regulation (such as thin capitalisation rules) and business practices (such as credit periods taken by customers). An inkling of the pace of this international expansion can be seen from Eurostat's data on foreign affiliates[10] (FATS): between 2008 and 2015, the number of FATS in Europe rose by almost a third, an increase representing nearly 70,000 FATS entities. In developing Asia, foreign direct investment (FDI) has risen from USD406bn in 2012 to USD476bn in 2017[11]. Combining the pace of this geographic corporate expansion with the external drivers outlined earlier makes frequent review and revision of liquidity management structures and processes a priority.

## Solution: revisit, revise, futureproof

These revisions may have to be extensive, when one considers that some very large corporates have essentially been using the same liquidity structure for 25 years. A further internal imperative for treasury (in addition to all the other drivers) to revisit this sort of heritage structure is the governance angle: e.g., is the structure in line with any corporate policy changes and does it comply with regulation such as PSD2?

While updating obsolete liquidity structures and processes may be essential, the pace and persistence of change means that doing this alone is insufficient. Any changes made must also incorporate a degree of flexibility, so that when future change is needed (which is highly likely) treasury can make it quickly and easily with the minimum of effort and cost. Agile thinking and processes are key here to ensure sufficient futureproofing.

This is definitely not a trivial task, but it can be considerably easier if undertaken with the support of a banking partner that has the necessary expertise and resources. Given the international nature of today's liquidity management environment, a global banking network is an important factor here, as are qualified process consultants in technologies such as ERP[12], TMS[13] and SWIFT. Furthermore, this expertise must be consistent across the whole end-to-end liquidity management process, from accounts receivable to investment of surplus cash and all points between. The same applies to any solutions the bank may provide. If treasuries are to futureproof their liquidity management effectively, they will need consistency of systems across collection, aggregation, movement and investment of cash - plus optimal visibility on all these activities.

It is all too easy to lose sight of the big picture here and not cover the entire spectrum of the liquidity management process. A good example of how this can happen is when setting up bank accounts in a new country. The first step is to establish a local corporate entity, which in many emerging markets will involve dealing with a local partner who will handle the incorporation. A common problem then is that the local partner will often default to opening the new entity's bank account with a local bank. While this may be acceptable from a day-to-day transactional perspective, it is definitely sub-optimal when that account needs to participate in a liquidity structure. A far better alternative is to use a suitable global bank instead. Then, when a local account is being opened, it can be

automatically integrated into the corporate's liquidity structure as part of the account opening process. Then the account will be immediately visible from central treasury and its liquidity (assuming it is not in a restricted currency) immediately accessible at an enterprise-wide level.

## Facilitators

**Millennials**

Demographic changes in the workforce are an important reason why corporate treasuries may find revisiting, revising and futureproofing their liquidity management easier than they might have done in the past.

By 2020, nearly half (46%) of all US workers will be millennials[14] and by 2025, this will also be true of 75% of the global workforce[15].Millennials stand out for their use of technology[16] and their willingness to adapt to (and drive) change[17]. They are technically and psychologically well suited to the sort of liquidity management reengineering and change that many treasuries now need to undertake. Digitisation, blockchain and artificial intelligence are all technologies with which they are comfortable[18 19 20].

Even though they may still mostly be in relatively junior positions, millennials may already be having an influence on treasury behaviour[21]. For instance, HSBC has recently seen a corporate treasury processing a multibillion dollar transaction using a mobile phone[22], something that would previously have been unthinkable. Millennials' technological capabilities also mean that as their treasury careers progress they will be expecting their banks to show a serious commitment and investment in technology[23].

**Vendors**

One of the main reasons that blue sky thinking for treasury has for so long remained just that has been the lack of alignment among the third parties with which treasurers deal. Happily, this is no longer true: banks, ERP and TMS vendors, cloud computing providers, fintechs and clearing systems are currently well-synchronised in terms of capabilities and delivery[24]. The level of co-operation and partnership among these entities is also strong, with SAP's recent announcement of SAP Cloud Platform private edition in collaboration with IBM Cloud being just one example[25].

Therefore, the historical problem of a single missing jigsaw piece derailing a project may no longer apply. Today, treasuries embarking on re-engineering and futureproofing their liquidity management may be able to do so with far more ease and confidence than might once have been the case. ■

## Conclusion

A rapidly changing environment is driving the need for treasuries to review, revise and futureproof their liquidity management. The good news is that this is now far less of a challenge than it would have been just a few years ago. Technological innovations ranging from instant payments, to digitisation, to AI, to cloud computing, all enable more to be done with less effort, at lower cost and at greater spee d. At the same time, the millennial workforce is ideally suited to implement change[26], while vendors are well-aligned in terms of their capabilities and mutual collaboration. There could hardly be a more propitious time to act.

***Notes***

1 https://www.telegraph.co.uk/business/2018/03/14/boom-back-world-economy-put-strongest-spurt-since-financial/
2 https://www.gfmag.com/magazine/september-2017/cash-piles-keep-growing
3 https://www.thebalance.com/current-federal-reserve-interest-rates-3305694
4 https://tradingeconomics.com/united-states/interest-rate
5 https://www.thebalance.com/current-federal-reserve-interest-rates-3305694
6 https://tradingeconomics.com/forecast/interest-rate
7 https://www.instapay.today/tracker/
8 https://www.psr.org.uk/sites/default/files/media/PDF/A-G-Report-March-2018.pdf
9 https://home.kpmg.com/nl/en/home/social/2017/12/instant-payments-instant-benefits.html
10 Eurostat defines a FAT as: "A foreign affiliate as defined in inward FATS statistics is an enterprise resident in a country which is under the control of an institutional unit not resident in the same country." http://ec.europa.eu/eurostat/web/structural-business-statistics/global-value-chains/foreign-affiliates
11 http://unctad.org/en/PublicationsLibrary/wir2018_en.pdf
12 Enterprise Resource Planning
13 Treasury Management System
14 https://www.kenan-flagler.unc.edu/executive-development/custom-programs/~/media/files/documents/executive-development/maximizing-millennials-in-the-workplace.pdf
15 https://www.ey.com/Publication/vwLUAssets/EY-global-generations-a-global-study-on-work-life-challenges-across-generations/$FILE/EY-global-generations-a-global-study-on-work-life-challenges-across-generations.pdf
16 http://www.pewresearch.org/fact-tank/2018/05/02/millennials-stand-out-for-their-technology-use-but-older-generations-also-embrace-digital-life/
17 https://www.entrepreneur.com/article/271741
18 https://yourstory.com/2016/11/millennials-changing-traditional-workspace/
19 https://www.nasdaq.com/article/op-ed-why-millennials-migrate-to-blockchain-technology-and-cryptocurrency-in-droves-cm927714
20 https://thefinancialbrand.com/67833/artificial-intelligence-millennials-digital-mobile-banking/
21 https://www.theglobaltreasurer.com/2018/06/14/make-way-for-the-millennial-accounts-payable-activist/
https://www.onedigital.com/blog/tech-savvy-millennials-shaping-21st-century-workplace/
https://www.business.com/articles/tech-savvy-millennials-at-work/
22 https://www.gbm.hsbc.com/insights/consumer-brands/digital-innovation
23 https://www.theglobaltreasurer.com/2018/06/14/make-way-for-the-millennial-accounts-payable-activist/
24 https://en.wikipedia.org/wiki/SAP_HANA
https://www.scmp.com/business/banking-finance/article/2140428/hsbc-spends-us23b-digital-platforms-ai-and-new-technology
https://www.globalcustodian.com/hsbc-outlines-17-billion-technology-investment-plans/
https://www.finextra.com/newsarticle/32183/citi-spends-more-on-tech-than-all-vc-investment-in-us-fintech
https://www.kyriba.com/why-kyriba/treasury-cloud
http://www.mas.gov.sg/Singapore-Financial-Centre/Smart-Financial-Centre/Project-Ubin.aspx
25 https://www.ibm.com/blogs/cloud-computing/2018/06/06/ibm-sap-cloud-partnership/
26 https://www.forbes.com/sites/larryalton/2017/12/28/5-ways-millennials-will-transform-the-workplace-in-2018/#2695cd24558d
https://www.nbcnews.com/better/business/7-ways-millennials-are-changing-workplace-better-ncna761021
https://www.forbes.com/sites/quora/2017/10/10/millennials-are-requesting-these-workplace-changes-to-thrive/#2905f3b550be

AN HSBC INDUSTRY VIEW

# Global Liquidity: Faster, Deeper, Greater

**Liquidity management is undergoing a period of major change. Liquidity is (re)circulating more quickly, major opportunities are emerging in 'big data' analysis and the global economy looks set to push liquidity levels higher. Nick Powell, Global Head of Commercialisation and Ray Suvrodeep, Global Head of Deposit and Investments Product Man agement, Global Liquidity and Cash Management at HSBC examine some of the opportunities arising from this situation and how treasuries might best maximise them.**

## Increasing Liquidity Velocity

***Instant Payments, Faster Clearing***

Liquidity is moving faster. Innovations such as instant payment systems are seeing clearing cycles shrinking to the point of being almost instantaneous. At the same time, the advent of mobile payments is triggering 24x7 cash flows at far higher frequencies. Furthermore, this acceleration doesn't just apply locally: various SWIFT initiatives mean that it also pertains to cross-border and global flows as well. The net result is that the velocity of liquidity is increasing and is likely to continue doing so.

In general terms this may be beneficial to corporations, as their cash conversion cycles diminish, along with latency in their payment execution and the amount of contingency cash buffer needing to be held in their bank accounts. This could result in less pressure on cash flow planning and forecasting, as well as assisting working capital efficiency.

On the other hand, this new faster liquidity environment also throws up some challenges for treasuries. For treasurers, getting cash to the right place, in the right currency, at the right time, is a fundamental task. However, as payments become faster, outflows also accelerate, so the response times for fulfilling this obligation become more demanding.

***Next Generation Virtual Accounts***

A major obstacle here is liquidity fragmentation. An efficient method for viewing and mobilising liquidity is an absolute must for addressing this. Fortunately, such a method now exists in the form of the next generation virtual account (ngVA).

In addition to the traditional advantage of virtual accounts – the ability to improve reconciliation rates by giving customers their own dedicated account details to pay to – ngVAs also include a self-service element. This enables clients to open/close virtual accounts quickly to suit their immediate needs, such as to track balances and transactions for respective customers/entities. This is faster and more efficient than opening physical accounts individually and managing/reconciling them on an ongoing basis.

When using ngVAs, all the liquidity is automatically concentrated in the single physical account that heads each group of virtual accounts. This makes rapid liquidity mobilisation far easier to achieve than if multiple physical accounts were involved. Essentially, ngVAs address some of the most fundamental liquidity fragmentation challenges by supporting speed of execution, as well as providing an architecture that more generally facilitates high speed liquidity management.

*For some time now the primary goal for many treasurers has been to achieve visibility and control of all corporate liquidity.*

***Real Time Liquidity Management***

Higher velocity liquidity opens the door to the challenge/ opportunity of intraday cash forecasting and liquidity management. On the one hand, this is concerned with making sure that the most effective use is made of internal sources of liquidity throughout the day. On the other, it involves managing any external sources of credit on a cross-bank basis. Given that cash is recirculating faster, this involves balancing a situation where there may be relatively few liquidity banks versus payment banks involved.

Dealing with this effectively in a real (or near real) time environment makes access to similarly timely data essential. Some treasuries already poll their banks for intraday statements. Some banks already offer an even better real time alternative to this, whereby data is streamed to the client continually. While this offers a great opportunity to improve real time liquidity forecasting and management, it comes with the caveat that the client's technology infrastructure must obviously be capable of capturing and processing the resulting data stream.

## Mining for Gold: Big Data Analytics

The application of specialised liquidity management techniques and functions (partly in response to higher liquidity velocity) is contributing to the generation of valuable data that can be analysed to enhance treasury-specific processes, as well as developing more general business intelligence. In view of the progress made by many corporate treasuries in recent years, this is a particularly timely development. For some time now the primary goal for many treasurers has been to achieve visibility and control of all corporate liquidity. While this may not be technically possible in some cases, a growing number have nevertheless already achieved this, or made major steps forward. As a result, they are now able to take advantage of the next stage in optimising liquidity management: using that visibility and control to deliver insight and effectiveness. Armed with the right data and tools, this is now achievable.

***Deeper insight***

Recent years have seen rapid developments in the science of big data analysis. These make it possible for treasuries to analyse their own data for tasks such as cash forecasting (see page 43 "Revolutionising forecasting"), as well as to gain more general insight into potential liquidity risks and opportunities. Innovations in artificial intelligence (AI), such as deep neural networks, mean that treasuries will in future be able to detect these risks and opportunities quickly and efficiently within huge volumes of data – a task that would be impossible for a human analyst.

However, analysing just the corporation's own transaction and liquidity data is just the first step towards all that is actually possible. As a result of their day-to-day role, major transaction banks have access to vast quantities of external data, such as cash flowing through the banking system. The most innovative of these banks are looking to make this available to clients so that they can analyse and benchmark their performance in areas such as working capital and liquidity management.

In this respect, it is important to emphasise the distinctive nature of this data: it is real transaction data, not just survey or sample data. While this makes it possible to draw far more robust inferences, a key point is the degree of depth and scope of the data that is available for analysis. A major transaction bank with a global network will be able to provide clean banking system data from around the globe in considerable depth and granularity, which will help to support statistically significant analytical output.

Nevertheless, attractive as this opportunity is, corporate treasuries are highly unlikely to have the budget or inclination to build their own platform for warehousing and analysing this data. They need a suitable interface through which they can access it that also provides the necessary analytical tools. For instance, HSBC has plans to introduce much of this functionality through a new liquidity management portal, which is currently in development.

## Managing Macro Growth Liquidity

### *A good problem to have...*

The availability of better liquidity insight and forecasting is also a timely development in a world where liquidity levels are likely to be rising. There are currently signs that a period of global macro growth is getting underway. The US and China are two major engines here, with current GDP growth of 4.2%[1] and 6.7% in Q2 of 2018[2] respectively. The Eurozone also appears to be recovering to the extent that the European Central Bank is talking of ceasing its quantitative easing programme. Many emerging markets are also performing well with Vietnam seeing GDP growth of 6.79%[3] and Indonesia GDP growth of 5.27%[4] in Q2 of 2018. In April 2018, the world's emerging markets and developing economies grew 4.9%.[5] Therefore, 2018 could see robust growth coupled with low inflation.

From a treasury perspective, this is likely to result in higher liquidity flows. However, in a strong economic environment there is an incentive to invest in businesses, possibly across multiple markets. Therefore, there is a need to be able to cover funding demands that could arise in multiple parts of the world in multiple currencies. In addition, in a stronger macroeconomic environment, existing businesses may be generating higher levels of surplus cash. So treasury may have to manage substantial irregular multiple global cash deployments, alongside a continual supply of revenue generation.

### *...and how to solve it*

Managing this situation requires an efficient deployment model that is well diversified. In addition, currency risk needs to be minimised and the tenor profile of investments must be able to accommodate sudden calls to cover investments/acquisitions.

At present, many on balance sheet bank deposit products tend to fall broadly into instant-access/overnight or term categories. In an environment where treasurers are expected to maximise return, while still retaining sufficient liquidity agility to cover possibly numerous acquisitions, something that fits between these two existing poles is clearly desirable. For example, a suitable notice account product available across multiple markets would give treasuries an additional yield versus liquidity option, when compared to a typical vanilla term deposit.

For some treasuries, rising liquidity levels may result in issues related to counterparty limits specified in their treasury investment policy. They may simply run out of available appetite for bank balance sheet. While this is less likely to be an issue with counterparty banks with stronger credit ratings, it nevertheless creates demand for solutions that efficiently integrate on and off balance sheet investment opportunities. HSBC's Liquidity Investment Solutions (LIS) deliver this by providing automated investment of cash above a client-specified trigger level with a range of approved third party asset managers. Automated redemption based on a minimum balance trigger level or risk limits on third party managers is also supported.

## Conclusion

While various products and solutions are available to help treasuries cope in the current shifting liquidity environment, these in isolation are insufficient. If global treasuries are to maximise their liquidity opportunities, the overriding need is for a bank service proposition that binds products and solutions into a single consistent experience, regardless of technology, location, currency or investment tenor. Anything less than this is palpably inefficient in the eyes of lightly-resourced treasuries that are perpetually expected to do more with less.

The current environment is a good example of this high level of expectation. However, while higher liquidity velocity, big data and stronger macroeconomic growth may seem a daunting prospect, for the most innovative treasuries they individually and collectively represent an important opportunity. More efficient use of working capital, better business intelligence/forecasting and enhanced yield on surplus cash are just some of the potential benefits available.

### *Revolutionising forecasting*

Big data analytics create opportunities for treasurers to re- engineer their cash forecasting processes completely. Common practice today is to send out spreadsheets to business units asking them to fill in their projected cash flows. These are then aggregated at a central treasury level to produce overall forecasts. This is labour-intensive, slow and for practical reasons can only be done periodically. It is also heavily dependent upon the varying skill and experience levels of those making the individual projections.

Given the right big data and analytics, this bottom-up cash forecasting process can now be replaced by something far more efficient. Recent advances in artificial intelligence (AI) mean there is no reason why techniques such as deep neural networks cannot be applied to tasks such as cash forecasting, where human judgment and intuition based on previous experience are currently key factors in making forecasts. If AI can replace all or most of this manual process, then clearly cash flow forecasting as we know it today could change fundamentally. The value created could be substantial, not just in operational cost/effort saving, but also in automating and optimising downstream treasury decision making and processes. ■

***Notes***

1. *USA GDP: https://tradingeconomics.com/united-states/gdp-growth*
2. *China GDP: https://tradingeconomics.com/china/gdp-growth-annual*
3. *Vietnam GDP Growth: https://tradingeconomics.com/vietnam/gdp-growth*
4. *Indonesia GDP: https://tradingeconomics.com/indonesia/gdp-growth-annual*
5. *World's emerging markets and developing economies total GDP growth :https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD*

AN HSBC INDUSTRY VIEW

# Liquidity Management in Asia-Pacific: Change and Opportunity

**One of the most fascinating aspects of liquidity management in Asia-Pacific today is its dynamic nature. Apart from regulatory change within the region, numerous other factors – such as shifts in US tax legislation and interest rates – also have a bearing. As Harish Kumar, Regional Head of Liquidity and Investment Product s, Global Liquidity and Cash Management, Asia Pacific at HSBC explains, these all present corporate treasurers with an interesting range of opportunities.**

Regulatory change in Asia-Pacific is now a fact of life for corporate treasuries, but given the right information and support, it is definitely not an insuperable problem.

However, a critical point here is clarity. This is because regulation in the region has of late been changing frequently and often also leaving some scope for

interpretation, such as whether a corporate might be deemed to fall in one or another category under a particular set of rules. A further complication is that regulation in some countries can be issued at both a provincial and national level, so ensuring compliance with both sets of rules presents additional challenges, whether or not the bank account is resident or non-resident is largely immaterial and the movement of funds is straightforward. This may no longer be the case post-Brexit. The tax implications for a particular liquidity structure, or the consequences of an entity moving funds to another entity, or to the same entity in another jurisdiction, remain unknown.

## Regulatory clarity and certainty

The need for treasuries to seek regulatory clarity and certainty in Asia-Pacific is underlined by the 'outline' nature of some new regulation. For instance, regulations may be introduced that tighten or relax certain existing rules relating to cross-border inflows or outflows of corporate liquidity. However, the new regulations might not explicitly state the extent to which the new conditions will apply.

This is the sort of situation where the capabilities of a corporate's bank can make a considerable difference. Some banks have a long and close relationship with local regulators through their compliance departments. This can be invaluable in obtaining clarification from the regulator on exactly how the regulation applies in practice. As mentioned above, in some countries (and China is a case in point) separate regulations may be issued at provincial and national levels. Therefore, the corporate's bank needs to have good regulatory relations at both levels and be able to aggregate any discussions to a holistic picture.

The overriding overall point here is certainty: treasurers need to be confident that their bank has been diligent in developing the most accurate interpretation of the regulation based on its dialogue with regulators at all the necessary levels. If it has, and gives clients a single consistent version of this interpretation, then they can make strategic decisions with certainty and comfort.

## In-country flexibility

Once corporates have clarity on the interpretation of current regulation, they can respond by making appropriate adjustments to their liquidity strategy. Nevertheless, the frequency with which regulation in Asia-Pacific can change means that treasuries need to be sufficiently flexible to respond effectively – and have banking partners with the right capabilities to assist them in doing so.

For example, a country might introduce regulation on cross- border outflows with the intention of preventing onshore incorporated companies from becoming net lenders. The regulation might therefore limit remittances offshore to the extent of repaying existing offshore borrowing, but not beyond.

This could result in an accumulation of onshore liquidity upon which yield would need to be maximised, while also remaining within the counterparty risk constraints of treasury investment policy. For some corporates, situations such as this would place an onus on their large international banking partners to deliver a suite of investment solutions that spanned the tenor spectrum.

Some banks have already responded to this type of challenge by launching new onshore products to give further depth to their existing liquidity product range. For example, HSBC has launched certificates of deposit of multiple tenors in China – the first foreign bank to do so. At the same time, anything partner banks can do to support more flexible and agile liquidity management adds value from a corporate treasury perspective. One example would be tools, such as HSBC's Liquidity Investment Solutions, that facilitate automated investment and divestment across multiple investment options and providers from a single linked header account.

## Pan-regional flexibility

The regulatory changes that have driven the onshore accumulation of liquidity in China since the end of 2016 have been gradually and partially relaxed. This again underlines the need for flexibility in the design and deployment of liquidity structures, both in China and across Asia-Pacific more generally.

A concept that could prove invaluable in this respect is the next generation virtual account[1] (ngVA). Historically, virtual accounts have been used to improve the auto-reconciliation of accounts receivable by giving each customer an individual virtual bank account number to which they send their remittances.

However, ngVAs add a self-service component to this, thereby making it easy for treasuries to open/close virtual accounts as needed. This can be an invaluable tool for treasuries seeking greater strategic flexibility in their liquidity management, as ngVAs can be used to consolidate liquidity regionally in multiple currencies to the single physical account at the top of each group of virtual accounts. Then, as circumstances change, individual virtual accounts can also be opened/closed for entities as required. ngVAs also facilitate more sophisticated centralised payment mechanisms, such as Payments On Behalf Of.

*HSBC has launched certificates of deposit of multiple tenors in China – the first foreign bank to do so.*

## Positive regulation

It is easy to fall into the trap of seeing regulation in Asia-Pacific in the negative light of protectionism, but the reality is actually very different. Possibly as a continuing consequence of the 1997 Asian financial crisis, most countries in the region are understandably keen to limit speculative flows ('hot money').

By contrast, they are typically strongly supportive of legitimate trade and the associated financial flows. Some countries are also embracing the fact that they have global corporates in their markets and appreciate that these corporates may have a need to repatriate cash.

This has recently been reflected in various relaxations and/ or increases in permissible transaction limits in the region. For instance, in the latter part of 2017 South Korea almost doubled its limit on permitted outward lending to USD50 million.

In addition, a range of countries in Asia-Pacific - including Malaysia, Hong Kong, Singapore and Thailand - are offering incentives (not just tax breaks) to encourage corporates to move operations such as treasury centres to their jurisdictions.

## US interest rate rises and tax changes

The increasingly business friendly attitude of some Asia-Pacific countries in the context of liquidity management is particularly timely for US corporations in view of recent and ongoing US interest rate rises. Previously, low borrowing costs and similarly low on balance sheet bank deposit rates meant that many US corporates could take a fairly passive approach to liquidity management. However, now that US rates have started to rise, borrowing costs have also risen and money market funds have become increasingly active in offering enhanced returns. At the same time, changes to US tax legislation have introduced a one-off tax break for the repatriation of corporate cash at a rate of 15.5 per cent (for cash holdings, 8 per cent for less liquid holdings), rather than the usual 35 per cent[2].

This combination is motivating the treasuries of US multinationals to take a more proactive approach to repatriating surplus cash from overseas operations in regions such as Asia- Pacific to pay down external debt. In addition, they are looking for more efficient ways of investing any remaining surplus cash – with automation of this process a growing priority.

An important capability for any tool for automating liquidity investment is that it needs to cover multiple providers of liquidity products (both on and off balance sheet) and provide an automated link with a bank account to which the treasury moves its surplus liquidity. A tool that can provide this – such as HSBC's Liquidity Management Portal – will significantly decrease the corporate treasury's liquidity management workload, especially if both automatic investment and divestment (based upon cash trigger levels in the bank account) are available.

## Liquidity consolidation

The availability of this sort of tool also links with another accelerating trend in liquidity management: the drive to consolidate balances and banking relationships. A growing number of treasuries are increasingly aware that in a rising interest rate environment fragmentation reduces their leverage in relation to both their credit and debit positions. If they consolidate those positions and relationships, the situation improves - especially if the bank to which they consolidate can offer sophisticated automated liquidity management tools.

This consolidation has an additional benefit in the context of Asia-Pacific jurisdictions where currency controls or other restrictions constrain the movement of funds for liquidity management. Under these circumstances, a global bank such as HSBC can offer an interest enhancement facility whereby balances in restricted jurisdictions can still be taken into account at a global level when calculating overall credit interest compensation and/or offsetting against debit interest. ■

## Conclusion: managing transition

In the context of liquidity management, Asia-Pacific has historically been seen as challenging, with much of this perception relating to the concept of 'trapped cash'. While this still applies in some jurisdictions and circumstances, the overall situation is gradually improving, with several countries adopting a more relaxed stance, especially in the context of business-related flows.

While this is good news, it doesn't actually make Asia-Pacific any less challenging, but just changes the nature of the challenge to one of managing liquidity in a continually shifting regulatory and interest rate environment. Staying on top of this situation is considerably easier if one can count on the support of a global banking partner that can offer the necessary regulatory intelligence, network, products and tools to facilitate a flexible and responsive liquidity management strategy.

***Notes***

*1 1 HSBC intends to launch next generation virtual accounts in Asia*

*2 https://uk.reuters.com/article/us-usa-tax-repatriation/corporations-may-dodge-billions-in-u-s-taxes-through-new-loophole-experts-idUKKBN1F035Q*

AN HSBC INDUSTRY VIEW

# Liquidity Management: Is Europe the New Asia?

**For many treasurers, Europe has historically been a benign environment for liquidity management. In contrast with regions such as Asia or Latin America, consistent regulation and unrestricted movement of funds has made for comparatively straightforward liquidity management. However, a variety of recent and forthcoming changes, includin g Brexit, bank ring fencing and the second Payment Services Directive (PSD2), will make Europe far more demanding over the next few years. Nevertheless, as Adnan Ahmed, Regional Head of Liquidity for Europe, Global Liquidity and Cash Management, explains, these changes are considerable opportunities for those treasuries that act now to ensure that their businesses, banks, systems, infrastructure and pr ocesses are agile.**

## Brexit

Brexit represents one of the greatest challenges for European liquidity management because of continuing uncertainty over the form it will ultimately take: 'hard', 'soft' or somewhere in between. At present there is no sense of linear progression to a predictable outcome, which makes planning future liquidity structures near impossible, especially in the context of rules relating to cross border transfer payments in Euros.

For example, there may be implications for treasuries regarding the creation of intercompany positions and the movement of funds in relation to their corporate tax positions. At present, whether or not the bank account is resident or non- resident is largely immaterial and the movement of funds is straightforward. This may no longer be the case post-Brexit.

The tax implications for a particular liquidity structure, or the consequences of an entity moving funds to another entity, or to the same entity in another jurisdiction, remain unknown.

Some more advanced corporate and other client treasuries are already undertaking considerable scenario scoping to devise strategies that have the flexibility to cover the broadest possible array of Brexit outcomes. Much depends on the size, complexity and location of operations. For instance, a corporate that is mostly European-focused with minimal UK operations, but with a UK-based liquidity structure, may have more at stake in terms of Brexit outcomes than one with mostly UK-based operations.

A key consideration in Brexit preparations is that a treasury's banking partners will be able to support the broadest range of possible contingencies if changes of bank account domicile and/or ownership are needed. Those banking partners will therefore need to be able to demonstrate both network range as well as depth, plus a consultative relationship approach to devising the optimal post-Brexit liquidity strategy and structures. Furthermore, they must also be able to offer the necessary tools for corporate treasuries to have maximum visibility and mobility of their liquidity both within Europe, as well as globally.

There is one very important upside to the very considerable demands of post-Brexit liquidity preparations. Many of the other changes due to affect the European liquidity landscape over the next few years are much more definite in their outcome than Brexit. Therefore, developing processes, systems and structures that are sufficiently flexible to cope with the broad range of post-Brexit outcomes will also implicitly deliver a more general competitive edge that will be of value in tackling these other challenges.

*Brexit represents one of the greatest challenges for European liquidity management because of continuing uncertainty over the form it will ultimately take.*

## Ring fencing

As from January 2019, major UK banks have to ring fence core retail banking from investment banking. This represents a fundamental change that affects large corporates' liquidity management. Historically, UK banks have used the funding raised from small/mid-sized business and retail customers to fund their loan books, with large corporates being major consumers of this loan capacity. After ring fencing, that pool of deposits may no longer be available to fund this lending.

This has two significant implications: the cost of large corporates' borrowing will increase, but so will the value of their deposits, possibly quite considerably. These pricing implications are already becoming apparent in the market place and this trend is likely to become more pronounced as January 2019 approaches.

As regards deposit rates, an important distinction is whether large corporate deposits are being placed with a ring fenced or non ring fenced banking entity and the credit rating of that entity[1]. A non ring fenced entity may be perceived as higher risk and have a lower credit rating and so will have to pay higher rates to attract deposits. However, it may be content to do this if it can deploy the resulting deposits at a better return. Therefore corporates' treasury investment policies will need re-examining to determine what is or is not acceptable in terms of risk/reward when choosing whether to place deposits with ring fenced or non ring fenced bank entities, or a mixture of both.

The ring fencing rules are likely to drive some notable shifts in banks' liquidity positions and therefore the rates they are prepared to pay to attract deposits. Some that were previously flush with liquidity may have to compete aggressively in the corporate deposit market to retain it and vice versa. One area likely to see appreciable change is the large corporate Euro deposit market. Previously many banks have avoided accepting Euro deposits because of the negative credit interest rates involved. However, post ring fencing, some banks may feel they are nevertheless worth attracting as it may now be possible to use the Euro deposits as a source of funding and redeploy them profitably.

From a practical perspective, this fluid situation will place a premium upon the ability to (re)deploy surplus liquidity without incurring a large additional manual workload for treasury.

Therefore, tools that provide a single automated interface where liquidity investment/divestment can be accomplished across on/off balance sheet instruments and ring fenced or non ring fenced entities adds appreciable value.

## Regulation and agility

The Second Payment Services Directive (PSD2), which largely took effect from January 13th 2018[2], should deliver further opportunities for corporate treasuries to enhance their liquidity management agility in Europe. By opening up banking client data (subject to client authorisation) it will be possible for non- bank third party providers to offer additional services. In many respects this mimics the situation with mobile phone networks, where only a few companies actually own physical networks, but multiple virtual network operators still leverage these to provide their own separate services.

The requirement under PSD2 for banks to publish an application programming interface (API) that third party providers can use to deliver their services has important implications beyond those services. One of the most striking of these is the reduction in implementation timelines for new services. These are likely to decline significantly under PSD2 from perhaps years to just months or even weeks, and apply across a number of areas including data management/mining and payments.

This is a major opportunity for corporate treasuries to become technologically far more agile than they are today. Switching to the best provider of a particular service or product need no longer be a painful and protracted process, which also means that providers can no longer rely on inertia as a client retention technique. Nevertheless, if treasuries are to extract the maximum benefit from this, they may need to revisit their investment policy more frequently, and their own internal technology and processes will also need to be sufficiently flexible. Suitably qualified banks can assist clients in reviewing the entire scope of their investment policy, including re- examining counterparty risk policies, permissible investments and yield objectives. These banks can also help in reviewing internal treasury technology and processes and implementing any necessary changes, especially if the bank can offer in- country certified specialists in enterprise resource planning (ERP) systems and/or SWIFT.

In addition, depending on their choice of banking partner, treasuries may also have access to a new aid to liquidity agility and flexibility, in the form of next generation virtual accounts. Historically, virtual accounts have been used as a means of improving accounts receivable reconciliation by giving each customer their own specific virtual account to which they make remittances. However, some leading banks have reinvented them to include an important element of self service, whereby clients can open/close virtual accounts as they require for individual corporate entities, potentially in differing currencies. All the liquidity in the individual next generation virtual accounts is centrally visible and controllable via the single physical account that heads each group of next generation virtual accounts. By also automatically concentrating liquidity from each group of virtual accounts into this physical account, rapid and efficient liquidity mobilisation is far easier to achieve than if using multiple physical accounts. They are therefore a valuable tool for treasuries looking for an extra agility edge to cope with a rapidly changing European liquidity management environment.

## 2023: all change

It appears likely that by 2023 the process of managing liquidity in Europe will have changed radically. In addition to the regulatory changes outlined above, there will also be broader shifts to accommodate. There are already signs of a growth cycle developing in the Eurozone[3], so treasuries may well find themselves with considerably more surplus Euro liquidity to manage by 2023. It is also not unreasonable to assume that there will be greater political certainty regarding the final outcome of Brexit. At the same time, there is likely to be a far greater range of third party technology and service providers for treasurers to choose from by then, as well as far lower barriers to switching among them.

This opportunity to move quickly and relatively painlessly among these providers is also likely to be applicable to banking relationships as well. In the past, changing banking partner might have taken perhaps three years because of the lengthy implementation times. As technology develops, these timelines may fall dramatically, making more frequent reviews of banking relationships feasible.

Despite some recent examples of protectionism, globalisation is still likely to remain a major theme in 2023, with businesses growing faster beyond their historical geographic boundaries. The internet has already had a major influence here in terms of both speed of expansion, but also the size range of entities expanding globally, with smaller companies now able to leverage the internet to establish a global presence with relative ease.

*Switching to the best provider of a particular service or product need no longer be a painful and protracted process.*

Even if just some of these changes have come about by 2023, it seems reasonable to suppose that the business environment in Europe will be more benign than it is today. However, this does not also imply that the liquidity management environment will be any more benign. In fact, partly due to the factors already mentioned, it is likely to be even more volatile and challenging. Furthermore, despite new technological advances, corporate treasuries will also have to find ways of optimising liquidity for the new business environment. Inertia is not a strategy, so to maximise any potential benefits, treasuries now need to be preparing for change by ensuring that they have the right partners to help them develop and maintain the requisite agility to cope in increasingly changeable conditions. ■

*It appears likely that by 2023 the process of managing liquidity in Europe will have changed radically.*

## Conclusion: network and relationship

There is the possibility of a more benign European business environment emerging over the next five years. Nevertheless, the number of changes affecting liquidity management are likely to see the region morph from one that was once almost 'set and forget' from a liquidity management perspective, into something altogether more volatile. This necessitates a fundamental transformation in the way corporate treasuries approach European liquidity management.

As mentioned above, agility and flexibility are vital if treasuries are to succeed in the new environment, but points of certainty and stability are essential in helping to achieve this in terms of future proofing. Core banking relationships are a good example of this. If a transaction bank can provide comprehensive network coverage across the UK and Europe, as well as globally, then the effort required for liquidity management activities such as opening/closing bank accounts in response to external changes will be materially reduced. If that same bank also offers solutions such as next generation virtual accounts, then treasury's workload drops by a further order of magnitude.

Analogous to this network stability is relationship stability in the context of consultancy. Most corporate treasuries simply do not have the resources to research the consequences of every possible factor that might affect their liquidity management activities. However, a major network bank that works with numerous global corporations is able to share that collective perspective and insight to deliver a consultative relationship thatsupports treasury in achieving the agility and flexibility it needs.

*Notes*

1. *Unlike small/mid-sized businesses and retail customers, the ring fencing rules do not specify whether large corporate deposits should be inside or outside a ring fence: https://blogs.treasurers.org/what-do-treasurers-need-to-know-about-bank-ring-fencing/*
2. *https://www.paymentsuk.org.uk/policy/european-and-uk-developments/second-payment-services-directive-psd2*
3. *https://www.bloomberg.com/news/articles/2017-11-13/from-lost-decade-to-golden-years-euro-economy-picks-up-the-pace*

AN HSBC INDUSTRY VIEW

# North American Liquidity: Change, Challenge, Opportunity

**Over the past year, the interest rate environment in North America has been markedly different from that in regions such as Europe. Coupling this with potential cross-border cash efficiences associated with NAFTA trade growth and the availability of innovative balance sheet investment options, means that treasurers in the reg ion are not short of opportunities. Michael Havraniak, Regional Head of Liquidity, Global Liquidity and Cash Management, HSBC outlines these opportunities and examines some of the ways in which treasurers can maximise them.**

## Interest Rates

***Interesting Times***

While interest rates in regions such as Europe have remained low (and in some cases negative), rates in North America have recently been following a very different trajectory. In the US there have been six rate rises over the past 22 months, with Federal Reserve officials projecting a steeper path for rate rises in 2019 and 2020[1], while in Canada there have been four

increases in the policy rate since July 2017[2].

Corporate treasurers in North America have been quick to respond to this in their expectations of the credit interest rates they are seeking from their banks. There is now much more emphasis on maximising yield across the maturity spectrum of surplus corporate liquidity. This is the most recent development in the way treasurers' attitudes to liquidity have evolved over the past decade. Back in 2008, the Association of Finance Professionals (AFP) annual Liquidity Survey[3], made it very clear that treasurers' emphasis was overwhelmingly on security and far less on yield or liquidity. However, based upon HSBC client discussions, it is evident that treasurers are now also looking to maximise yield and liquidity. Consequently, there is a lot of pressure from North American corporate treasurers on banks to pass on any central bank rate increases in their entirety.

A further incentive for treasurers to maximise yield is that corporate liquidity levels continue to rise. According to annual research by S&P Global[4], US corporate holdings of cash and short- and long-term liquid investments hit a record USD1.9tr as of year-end 2016. In some cases this liquidity increase is causing treasuries issues with the credit risk limits allocated to their banks in their treasury investment policy.

As yet, it is unclear whether this – coupled with lessening emphasis on security – will result in treasuries extending the number of banks they are prepared to place deposits with, or whether they will simply increase the risk limits on banks with which they already place cash.

***For longer-term cash where yield is an important objective, some corporate treasuries may start to look at a broader range of instruments.***

## Changing Buckets

Apart from interest rate rises, another interesting liquidity dynamic at present is the change in treasury behaviour in relation to segmentation of liquidity. Historically, many treasuries have tended to allocate their liquidity into three 'buckets': short, medium and long term. Allocation across buckets has usually been done on the basis of availability requirements. Short-term liquidity would need to be instantly available for working capital, while long-term liquidity might only need to be tapped very occasionally and so could be placed in instruments such as 90-120 day notice accounts.

It appears that this behaviour is now changing in two ways. Some treasuries are retaining the same three bucket model but are reassessing the segregation of cash across the buckets.

Others are considering adding new buckets to achieve a more granular approach to their liquidity investment. In both cases, maximising yield is a core objective.

An important factor behind this shift is Basel III. While a few banks, such as HSBC, were quick to draw the attention of their treasury clients to the implications of the forthcoming regulation for efficient liquidity management, others were not.

As a result, a considerable number of corporate treasuries have until recently tended to assume that Basel III was an issue purely for banks, and failed to appreciate the knock-on effect on their own liquidity management.

This situation is now changing and more treasuries now understand the significance for them of Basel III measures, with the Liquidity Coverage Ratio (LCR) being an important example. The purpose of the LCR is to support the short-term resilience of the liquidity risk profile of banks by ensuring that banks have an adequate stock of unencumbered high quality liquid assets that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario[5]. This effectively means that large corporates' deposits that can flow out a bank within 31 days (and that are not linked to transactional products) have zero liquidity value to any bank accepting the deposit. As a result, banks have minimal incentive to attract these deposits.

Growing awareness of this among treasuries has had two consequences. Firstly, as mentioned above, treasuries are re- examining the way they bucket their liquidity. More specifically, they are considering how much of it they can re-allocate to beyond 30 days. Secondly banks are launching products to target this shift: for instance, HSBC has introduced a 31 day notice account to extend its liquidity product offering, which offers client an uplift in yield over shorter-term products.

## NAFTA

Notwithstanding current political uncertainties over NAFTA, the fact remains that it accounts for very substantial trade value: USD1.1tr in 2016[6]. From a treasury perspective, this means that NAFTA-related trade can easily result in substantial liquidity balances accruing that are distributed across several currencies in several different countries. Given treasury's fundamental task of ensuring that the corporation has the right liquidity in the right place in the right currency at the right time, this can represent a considerable challenge.

***Cash concentration***

Dealing with this effectively requires an efficient method for cash concentration. While it is perfectly possible to accomplish this manually, this is inefficient in that this sort of low level transactional activity diverts treasury resources from more important strategic concerns. This applies in two important respects: the actual individual instructions for moving cash, but also the tax-compliant and accurate administration of any resulting intercompany loans.

Automated solutions are available for running cash concentration structures. All the treasury has to do is specify the necessary balance thresholds and sources/destinations for sweeping cash. The necessary movements of funds then

take place automatically without requiring further intervention. If there is a need to adjust any of the parameters, the treasury can simply log in and make the necessary adjustments - other than this, operating an automated cash concentration scheme of this type is a comparatively low maintenance affair.

***Intercompany loan accounting***
The same degree of automation can also be applied to the accounting process for any resulting intercompany loans. A large international corporate operating in different locations across NAFTA is likely to have different legal entities operating across that geographic base. If funds are flowing across the organisation and internal sources of liquidity are being used, then that will inevitably result in intercompany lending.

Historically, many corporate treasuries have opted to handle accounting for this themselves in-house. They have tracked the loans, calculated and applied the relevant internal company interest rates to those loans, and settled them across the bank account. As with issuing individual payment instructions with a cash concentration structure, this is hardly the most efficient approach – especially if a reliable automated alternative is available. HSBC's inter-company solutions offer this facility, freeing up treasury resources for more crucial strategic tasks.

## Off Balance Sheet Investments

***Maximising return and capacity limits***
As mentioned earlier, North American treasuries are highly focused on maximising return and they currently have high levels of cash upon which that return must be generated.

In some cases, the sheer volume of this cash is running up against the deposit capacity limits they may have in place for their various banks. This combination of circumstances is driving many of them to reconsider their off balance sheet options.

The ideal here is to have a process that integrates on and off balance sheet investment, so treasury doesn't have to take on another separate manual process. This was one of the driving factors for the creation of HSBC's Liquidity Investment Solutions (LIS)[7]. This enables users to automate the sweeping of cash from an HSBC account above a certain trigger level into off balance sheet money funds offered by a range of investment managers. (Automated fund redemptions can also be made if the bank account balance falls below a trigger level.) This gives users the convenience of a single process for managing on/off balance sheet investments.

***Further along the curve?***
Apart from the quest for greater yield, another factor that could cause a shift in treasury investment behaviour is possible regulatory change in relation to money funds (daily liquidity funds). At present, a great deal of research is being undertaken by asset managers and fund houses into what product changes they may need to make in response to regulation.

In some respects, this situation is not dissimilar to that which applied immediately after the framework of Basel III was first agreed upon in September 2010[8]. Just as then, treasuries do not as yet have sufficient concrete information to understand the full investment implications for them of the forthcoming regulatory change.

Nevertheless, one possibility is that for longer-term cash where yield is an important objective, some corporate treasuries may start to look at a broader range of instruments, beyond bank deposits and money market funds. Furthermore, if continued high (or even increasing) levels of excess liquidity persist, more liquidity may start being assigned to the longest-term liquidity bucket. This in combination might result in a willingness to look a little further along the yield curve for investment opportunities. However, even if this specific scenario does not arise, the easy and automated availability of a broader spectrum of investment products via a single platform will still be of value.

## Innovation

In an environment of rising interest rates and high liquidity levels, sophisticated corporate treasuries are looking to their banks for innovation. Much of the expectation here focuses on the automation and streamlining of liquidity processes that have historically been laborious for treasury to execute manually.

***Next Generation Virtual Accounts***[9]
Next Generation Virtual Accounts (ngVAs) are attracting considerable attention in this respect. They build upon the existing accounts reconciliation advantages of virtual accounts to add a self-service element. This enables clients to open multiple new virtual accounts beneath a single physical account. The administrative overhead of opening a new virtual account is considerably lower than that involved when opening a new physical account.

This makes it relatively trivial for treasuries to achieve a greater degree of control and flexibility, by being able to create sophisticated account structures using ngVAs, while still benefiting from the visibility, control and reporting advantages of an equivalent physical account structure.

At the same time, ngVAs give treasuries the chance to increase the centralisation of their operations. Using ngVAs, they can build structures that represent (for example) sets of business units or subsidiaries that can be managed centrally by treasury, such as to conduct payments on behalf of (POBO) or receivables on behalf of (ROBO). This sort of structure can provide the transparency needed at the entity or subsidiary level, while also delivering a centralised process for central treasury, plus being potentially more cost-effective to operate.

*North American treasurers have been quick to pick up on the opportunities that financial technology companies (fintechs) can offer.*

***A central point of liquidity control***

While treasuries increasingly expect liquidity management innovations from their banks, they also expect a convenient means for controlling those innovations. Having to log onto multiple separate systems in order to accomplish individual liquidity-related tasks is inefficient. By contrast, being able to log onto a single interface where (for instance) ngVAs can be opened, or trigger levels for money fund (de)investment changed, streamlines day-to-day activities and frees up treasury time for more important strategic activities.

This need for centralised liquidity control has been one of the drivers behind the creation of a new liquidity management portal that HSBC is developing. This is intended to enable granular control of a broad spectrum of potentially automated liquidity management related activities. These include an interface to LIS whereby users can adjust the managers they invest with, as well as the liquidity levels at which investments and redemptions are automatically made. HSBC's new portal will in due course be connected to the bank's Global Liquidity Engine. This will deliver much more than just information presentation. It will also enable clients to interact directly with HSBC systems to make settings changes for their liquidity management themselves, rather than having to ask HSBC to make the changes for them.

For example, in the context of a sophisticated cash concentration structure (such as those used across NAFTA by many North American treasuries) clients will be able to log in and adjust the frequency of sweeps or target balances.

If they are using HSBC's inter-company solutions they could amend the inter-company interest rate that is applied, or adjust borrowing limits between entities if they are breached to ensure sweeps are not affected.

***Plug and play banking***

North American treasurers have been quick to pick up on the opportunities that financial technology companies (fintechs) can offer. More specifically, they are interested in any possible openings that will increase their flexibility and agility. For instance, a corporate may have complex cash management and liquidity structures in place. These have often been time consuming to implement, but if there are changes to the corporate's lending or revolving credit facilities, it may be necessary to make substantial changes in order to switch some or all ancillary business to another bank or banks.

Using conventional methods, this would typically be a painful and disruptive process for treasury. To avoid this, corporate treasuries are now looking to fintechs to provide plug and play banking, by effectively acting as a consistent form of banking middleware. Under this model, the corporate is connected to the fintech via a single consistent interface that essentially doesn't change. However, on the other side, the fintech has connectivity to multiple banks. If the corporate needs to switch banks, or add banks to cover a new jurisdiction, the fintech will simply disconnect/connect the relevant banks on the treasury's behalf. However, the corporate connectivity to the fintech will remain unchanged, thereby minimising cost and disruption for the treasury. ■

***Notes***

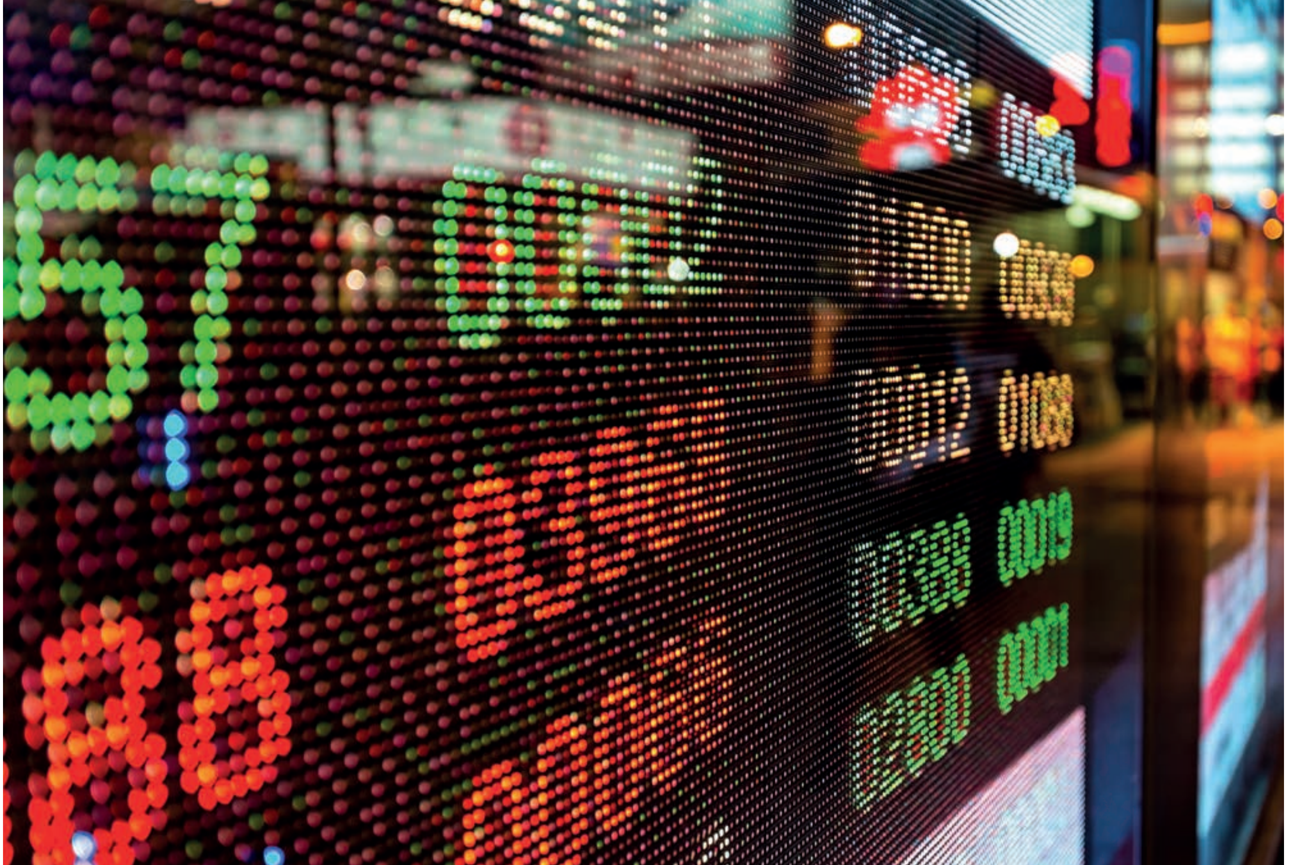
1 *https://tradingeconomics.com/united-states/interest-rate*
2 *https://tradingeconomics.com/canada/interest-rate*
3 *2008 AFP Liquidity Survey*
4 *https://www.spglobal.com/our-insights/US-Corporate-Cash-Reaches-19-Trillion-But-Rising-Debt-and-Tax-Reform-Pose-Risk.html*
5 *https://www.bis.org/publ/bcbs238.pdf*
6 *https://www.cfr.org/backgrounder/naftas-economic-impact*
7 *An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), any other government agency or HSBC.*
8 *https://www.reuters.com/article/us-basel-banks-text/announcement-of-basel-iii-bank-rules-idUSTRE68B1W420100913*
9 *HSBC is planning to launch Next Generation Virtual Accounts in North America.*

## Conclusion

It is increasingly apparent that North American treasuries are not looking for anything particularly complex to help them manage their liquidity. They are simply in need of innovation that helps them to self-service as efficiently as possible. This not only opens the door to better visibility and control of liquidity, it also removes low grade transactional activity that adds no value from their workflow.

In view of the way that developments such as instant payment systems are boosting the velocity of liquidity, the need for this streamlining of workflow becomes ever more imperative. Treasuries need to be increasingly responsive and agile in terms of liquidity management, while operating in ever shorter timeframes. Solutions that incorporate self-service and/ or facilitate faster and less costly change management are therefore welcome.

The good news is that much of the change needed to deliver this objective is already underway. The caveat is that there is so much change and innovation that for treasury to keep abreast of all developments and pick the most appropriate to adopt is a major workload in its own right. This is where a bank capable of acting as a trusted and consultative partner in a truly global network context helps add real value. It will be able to offer support based on a detailed understanding of the client's business, plus its possible evolution and objectives. It will thereby assist in maximising the client's chances of making the right decisions about the liquidity technology and strategy it adopts.



AN HSBC INDUSTRY VIEW

# Liquidity Management Portal: Finance at Your Fingertips

*LMP delivers the tools to give users the best possible insight.*

**Poor visibility is one of corporate treasury's greatest challenges and a major obstacle to more efficient liquidity management. It also consumes precious treasury resources that could be devoted to more valuable strategic activities. HSBC's new Liquidity Management Portal (LMP) has been developed with the specific aim of resolving these issues an d maximising liquidity visibility by streamlining the underlying data management. Nick Powell, Global Head of Commercialisation, Liquidity and Investment Products and Ray Suvrodeep, Global Head of Deposit and Investments Product Management, Global Liquidity and Cash Management at HSBC explain how LMP can transform liquidity management for the better, both immediately and in the future, as well as suppo rting treasury's strategic participation.**

## Data, data, data

Liquidity is only manageable if it is visible. Even if that visibility is achievable, for many treasuries it remains a resource hungry process. Traversing multiple bank platforms to download data, emailing subsidiaries for spreadsheets of cash positions, then aggregating and normalising all the resulting information, before trying to analyse, forecast, decide and act.

By automatically aggregating the necessary information across investments, cash, liquidity structures and providers, LMP radically improves this situation - but instant data management is only part of the picture. LMP also delivers the tools to give users the best possible insight into their liquidity data. From that solid basis, they can move on to take the best possible liquidity decisions and actions for their business.

## New look treasury: intelligence and self-service

The coupling of holistic data aggregation and user- configurable reporting tools in LMP results in a digital solution of considerable flexibility. As a result, there is little practical limitation on how treasurers might choose to slice, manipulate and analyse their data across multiple criteria, including regions, countries, banks (or other providers) and currencies, among many others.

This means that treasurers armed with LMP's actionable analytics are empowered to make faster and better decisions. Furthermore, because LMP integrates connectivity with other HSBC liquidity solutions, such as cash pooling and automated investment solutions, those decisions can be immediately translated into action. A key point here is the high level of self service implicit in LMP: many tasks can be directly undertaken from within the environment, without having to contact bank staff to request changes.

This autonomy fits well with the way that the role of treasury has changed to a more consultative one that the business looks to for strategic advice. LMP helps treasurers make faster and better liquidity decisions, but in doing so it also frees them up to devote more time to business support, as well as providing the functionality to facilitate this. One example of this might be the development of treasury's own internal thought leadership on the current financial situation of the organisation, along with the potential challenges and benefits of various possible future strategic options. Coupling this with its liquidity management functionality, means that LMP can help treasury to become more effective and efficient in executing both its traditional and new responsibilities.

## Speed and flexibility

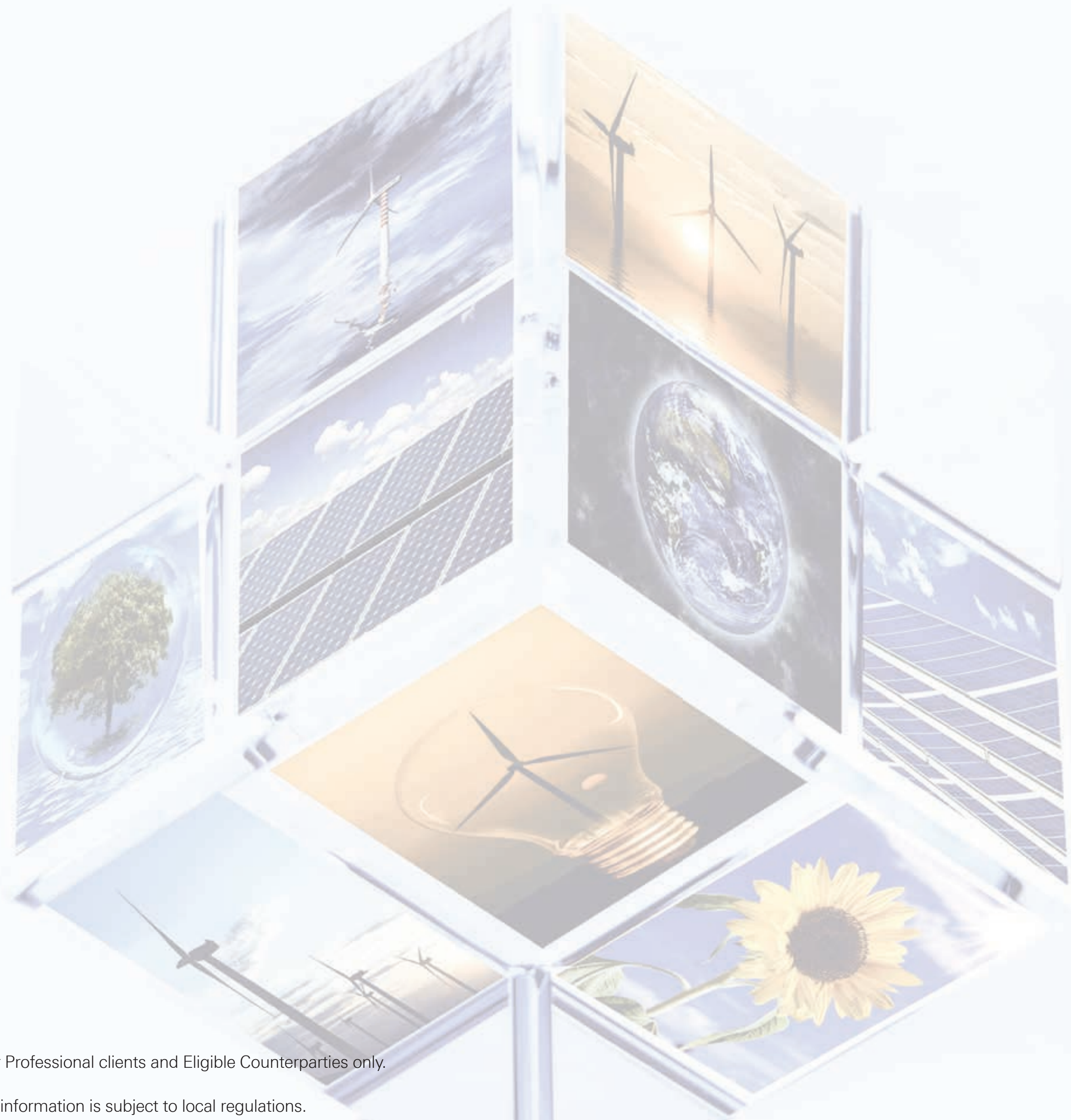
The data associated with treasury activities has changed significantly in recent years in the context of time. Bank and clearing systems that once operated on an end of day batch basis, now function in (or close to) real time. This opens the door to faster, better decision making, but only if the available analytical tools can take advantage of streaming as well as historical data. In this respect, LMP's database and user interface technology do not suffer from the limitations of the previous generation of treasury analytics. By taking advantage of modern cloud technology that also embeds extensive big data capabilities, the processing and mining of huge volumes of data in real time could be possible. As a result, treasury's analysis can be far more proactive and timely - as can any resulting actions.

Nevertheless, some clients may prefer to have access to the comprehensive data sets underpinning LMP, but use their own tools for analysis (which also corresponds with the move to open banking in Europe as represented by the Payment Services Directive (PSD2)). As a result, HSBC is looking at ways in which the same data accessible via LMP might be delivered via API into clients' own systems. ■

## Conclusion: future possibilities

As it stands today, LMP represents a major step forward in liquidity management and strategic decision making. However, even more advanced capabilities may become possible over the next few years. The high quality data management implicit in LMP lends itself well to the use of artificial intelligence and machine learning techniques, where access to robust, comprehensive data is a key enabler for tasks such as automated cash forecasting. A possible further extension of this information-rich environment is that in due course it may also be feasible to build anonymous benchmarking data sets for individual industries or geographies. Therefore, in this and many other respects LMP is not just an exceptional step forward for liquidity management today. It also opens the door to the treasury of tomorrow.

*Treasurers armed with LMP's actionable analytics are empowered to make better and better decisions.*



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