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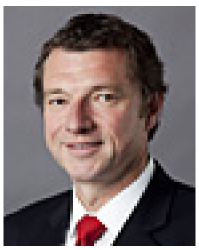
The Ongoing Evolution of Treasury Management



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The combined effects of ongoing global liquidity constraints, turbulence in the eurozone and a raft of regulatory change continue to cast a shadow over treasury management. The need to address these challenges is fuelling the corporate drive for a more strategic approach to treasury management, along with the closer integration of the treasury function with other business units. As a result, corporate treasury is becoming increasingly sophisticated and treasurers are making their presence felt throughout their organisations and — in many cases — at board level.

One key trend that has emerged from the increasingly strategic role of corporate treasury is the department's involvement in driving supply-chain efficiencies. The emphasis on supply-chain management stems chiefly from the commercial interruption caused by the Arab Spring and natural disasters such as the Japanese tsunami that affected supply chains globally. Given the close alignment of physical and financial chains, companies are becoming increasingly aware of the role treasury can play in the practical aspects of business continuity. This in turn is inducing more and more trade entities to explore the potential offered by financial arbitrage — a supply chain finance technique that allows larger buyers to optimise their working capital cycles while using their financial strength to improve the stability of their end-to-end supplier base.

In practice, this works as follows: In exchange for extended payment terms — for example 60 days rather than 45 — smaller suppliers can leverage the credit-worthiness of their larger trade counterparties to obtain more favourable credit terms than they otherwise could in a bilateral situation. This is particularly the case during periods of low liquidity when bilateral loans become scarce and expensive. The result: a win-win situation for all parties. When used in combination with technology initiatives designed to increase automation, transparency and connectivity, such financial innovation can significantly improve supply-chain efficiency. As treasurers increasingly work alongside IT and procurement departments to drive value throughout the entire supply chain, any remaining divides between treasury and the broader company uses of technology will narrow — and eventually even disappear.

Treasury and Technology

Optimal treasury management has long been a question of technology, as it is the key to improved cash visibility and best-practice transaction data management. Technology is proving to be a vital tool in improving intercompany integration, as well as streamlining reporting. As breaking down internal silos and meeting regulatory reporting requirements become increasingly important, there are many new trends centred on these concepts. These include the centralisation of payments — to improve connectivity between billing, accounts payable/receivable and financial reporting — and virtual account solutions to reduce costs and simplify structures.

Treasury technology developments are also — and inevitably — influenced by regulatory demands and pressures. The Single Euro Payments Area (SEPA) — though hardly a new topic — provides a case in point.

With February 2014 confirmed as the end date for migration to the SEPA Credit Transfer and Direct Debit (SCT and SDD) schemes, corporates that have yet to do so need to begin migration preparations now. This is especially the case as many companies — particularly larger corporates with more complex payments and accounting systems and structures — will find the move to the SCT and SDD a bigger challenge than anticipated.

SEPA compliance entails overcoming a series of operational hurdles, such as the gathering of Bank Identifier Codes and International Bank Account Numbers and the question of whether or not to convert to XML data formatting. These are then accompanied by more strategic decisions — for example, whether or not to move to a more centralised treasury structure to leverage SEPA's benefits.

Addressing these issues will necessitate some notable — in some cases major — changes to existing treasury management systems, as well as have a significant impact on future development and strategy plans. For this reason, corporates should ensure they seek direction from their bank partners and work closely with them at all stages of the migration process.

Bank-Corporate Collaboration

Indeed, if there is a positive to the challenges presented by regulation, it is the resulting increase in bank-corporate communication and collaboration. The ongoing discussions over some of the unintended consequences of Basel III provide an illustrative example.

One such consequence is a potential hike in the cost of trade finance, which may prove damaging for obvious reasons. While banks — including Deutsche Bank — have been taking an active role in regulatory debates for some time, we are now seeing more lobbying on the corporate side for the reversal of potentially harmful decisions. We should all be encouraged by the bank and corporate worlds speaking in unison for more positive change — and such collaboration and communication should extend to more practical areas, such as solutions development.

Given that the emphasis is now firmly on solutions rather than products, corporates require their banks to play a more advisory role and offer tailored and user-friendly practical support. Deutsche Bank is working to meet this need by including corporate clients in the design and development process of new solutions. We believe that the user experience — in addition to capability — is a vital component to modern treasury technology, and achieving ease-of-use and the necessary degrees of flexibility/customisation is not possible without customer involvement.

We are also moving towards a more industry-aligned customer-focus model, in which there is a designated expert team for specific sectors, including consumer/retail, healthcare, insurance, chemicals, metals and mining, oil and gas, and the automotive industry. The aim of this is to deepen our understanding of these industries to assess the sector-specific solutions we can design and implement to address emerging challenges.

With global trade at an inflection point, banks and corporates are going to have to work more closely together to drive the industry forward. For banks, this will mean paying closer attention to client concerns and differing local market requirements. For corporates, this will require a willingness to embrace innovation — and not just in terms of technology, but with respect to funding instruments.

Ongoing liquidity and credit constraints — not to mention lingering concerns over the unplanned effects of Basel III on trade finance — mean that alternatives must be found to the conventional funding methods. One option that is gaining growing interest is the trade finance equivalent of collateralised debt obligations (CDOs). Attracting investors to an asset class that has not traditionally existed in the trade finance space will not be easy — but banks must look to the new, and corporates must embrace the new to keep trade flowing. Innovation in all areas of transaction banking is vital and — when combined with greater industry communication and collaboration — will be the key to overcoming future market challenges.