Deutsche Bank
Global Transaction Banking

TreasuryPulse

Passion to Perform

Unlocking Potential: Trade and Cash Convergence

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The financial crisis dropped a rock into the placid waters of corporate financing. Corporate treasurers responded by focusing on working capital and banking service providers. They asked us at Deutsche Bank how others were reacting to both the challenges and opportunities — and how they could adopt best-in-class practices. We quickly recognised that more integrated product solution packages were needed for a changing market environment also being shaped by a plethora of new regulation and the accelerated pace of technological advance. So at the bank, we decided to pool the respective skills of our cash and trade solutions teams to provide integrated solutions for treasurers.

In traditional trade finance, corporates continue to want advice on documentary trade products, including import and export letters of credit, standby letters of credit, trade guarantees and documentary trade collections. Treasurers also seek strategic advice on using short-term trade financing, as well as opportunities to secure a stable source of financing supported by the organisation's underlying business flows.

Products such as supplier financing, accounts receivable and transaction/ transaction-based financing are now regularly incorporated into integrated working capital solutions.

Supply Chain Potential

The world of working capital has expanded significantly, with solutions such as confirming payables gaining wide application.

Back in the pre-2008 era, credit was more freely available, so supply chain finance was a more conceptual product for many. And even in the liquidity squeeze from 2008, larger corporates — although impacted — were spared the harm caused to smaller companies by the sudden liquidity drought.

Yet the crisis exposed the respective strengths and weaknesses of key suppliers and distributors in today's extended supply chains, which ultimately had a major impact on even the largest player in the supply chain.

As the liquidity and credit crises have become better understood, there has been closer analysis of supply chain finance's potential to address these interlinking areas. Banks have refined their product offerings, while both the tax and accounting treatment related to the introduction of programmes have been more closely analysed and better understood. These developments now provide opportunities both to look at positively impacting days payable outstanding (DPO) ratios and to underpin the financial health of key counterparties and distributors in an organisation's supply chain.

A major challenge presented by supply chain programmes has traditionally been onboarding, or ensuring that opportunities presented by new supplier financing programmes are fully realised. Our dedicated onboarding team works with customers as well as their key suppliers in a coordinated partnership. The ability to bring our customers and often our "customer's customer" to the table effectively, in order to help all parties understand and appreciate the benefits to be gained from the supply chain programmes, is key to the rising success and interest in this area.

This partnership focus is crucial, and working with clients constructively is a constant area of opportunity for improvement for us. In this respect, one way in which Deutsche Bank gains feedback from our key clients is through our twice-yearly forums, at which key treasurers tell us their latest challenges and priorities. They report an increasing interest from the organisation's C-level in the topic of working capital, with treasurers regarded as primary drivers of greater value and where we have seen these individuals become increasingly empowered accordingly — particularly in the field of converged trade and cash-related opportunities.

While managing risk was always part of the treasury department's role, the scope and responsibility of the task is increasing. Enterprise risk management (ERM) has developed from a concept to a solid programme of action, meeting corporate goals for sustainability, collaboration or working capital optimisation. These "newer" disciplines sit alongside some of what may be termed the "core tasks," and the convergence between corporate objectives and functional areas are blurring.

Indeed, while accelerated by the financial crisis, the trend towards looking at risk, collaboration and optimisation had been ongoing and many of the benefits have already been realised. Companies have streamlined, established payment factories, centralised liquidity, collaborated and reduced the number of bank accounts over many years in an effort to optimise and introduce better practises and disciplines. And they have consolidated their information through ERP platform solutions and introduced standardisation based on straight-through processing (STP) formats.

Added to this now are increasing counterparty risk related focal points, concentration concerns, sustainability objectives and value versus cost-based considerations.

Robust Systems

Certainly, treasurers are tasked with doing more and more, yet budgets are often frozen and resources limited despite accelerating change and impending regulatory challenges. Treasurers must therefore ensure that their systems are robust, their counterparties well-aligned and they themselves are well-networked to both their peers and those with whom they deal regularly.

Wherever practicable, the treasury department should request a clear mandate from senior executives on ERM key performance indicators (KPIs) that must be met. They must also secure the backing to meet them. Too often organisations fail to allocate specific responsibility to any one department or individual. Meanwhile, treasurers who identify and solve the issues around such a vacuum can not only bolster their own role, but also deliver benefits to their organisation.

Finally, there are the regulatory repercussions across business processes, which remain uncertain. Global regulatory responses to the events of recent years, such as the Markets in Financial Instruments Directive II (MiFID), Dodd-Frank, SEPA and Basel III, often can involve massive programmes of change whose implications are still to be fully assimilated.

Basel III in particular requires that financial institutions improve the quality of their counterparty risk management, as well as the quality, quantity and transparency of their capital. Their financial buffers must be more resilient to future financial crises.

Ultimately, these new requirements will increase banks' capital and funding costs and, in turn, impact credit costs for corporates with potential spill-over into product pricing. They should also provide opportunities in the area of liquidity management and yield strategy.

Companies able to manage risks and assimilate the regulatory impact will gain a competitive advantage — but it is a complex playing field where partnering with the right advisors will be instrumental to realising these opportunities.