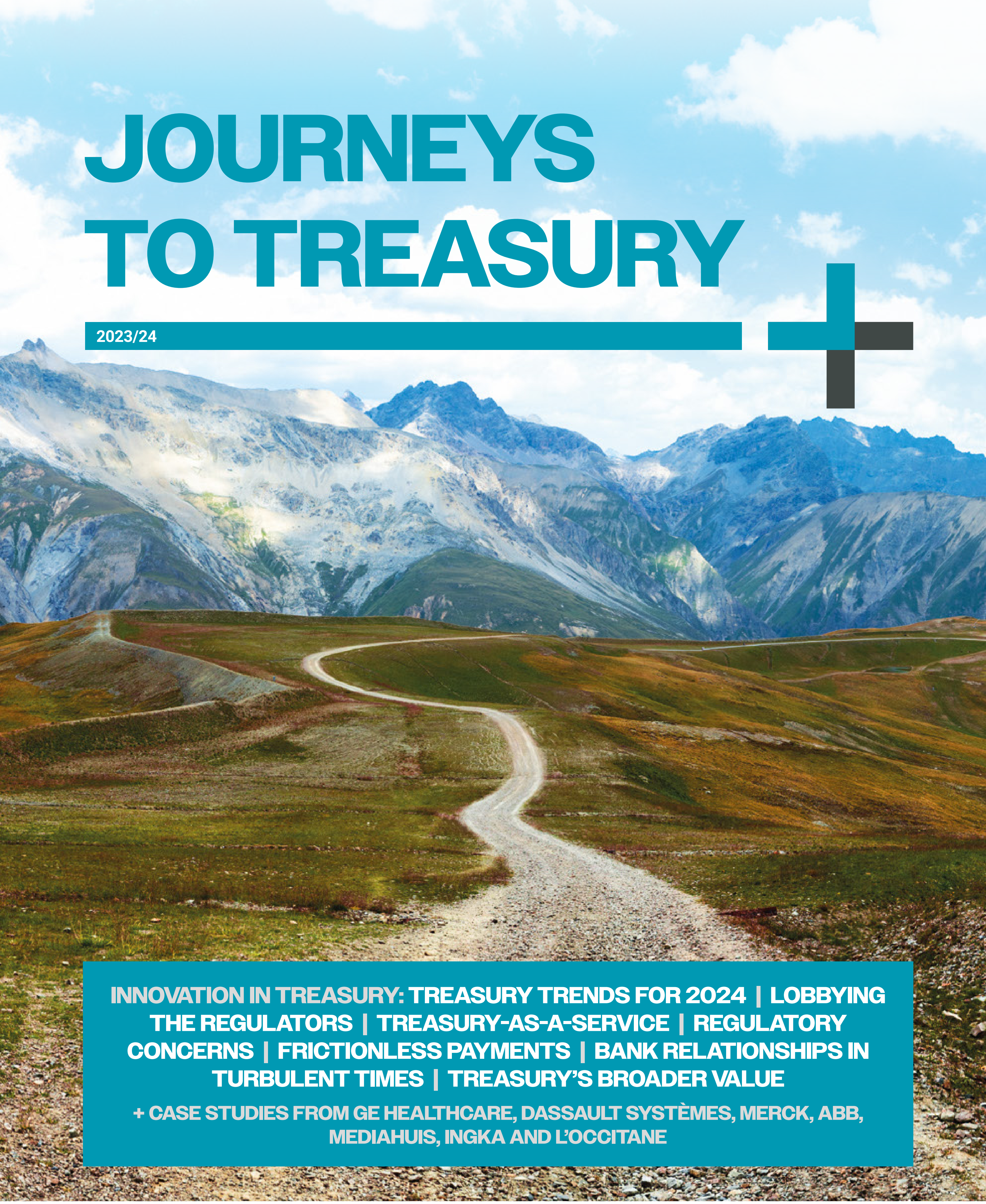

JOURNEYS TO TREASURY

2023/24

INNOVATION IN TREASURY: TREASURY TRENDS FOR 2024 | LOBBYING THE REGULATORS | TREASURY-AS-A-SERVICE | REGULATORY CONCERNS | FRICTIONLESS PAYMENTS | BANK RELATIONSHIPS IN TURBULENT TIMES | TREASURY'S BROADER VALUE

+ CASE STUDIES FROM GE HEALTHCARE, DASSAULT SYSTÈMES, MERCK, ABB, MEDIAHUIS, INGKA AND L'OCCITANE

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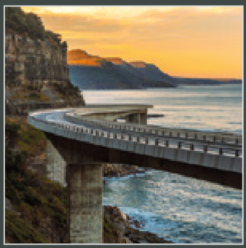

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FOREWORD

THE LONG AND WINDING ROAD

FOREWORD BY FRANÇOIS MASQUELIER, CHAIR, THE EACT

There are many paths to treasury and all of them are complex, long, and ever-changing. It is, therefore, important to accompany those who are travelling along these paths – treasurers and finance professionals – and provide them with the tools and directions necessary to reach their destinations. To this end, Journeys to Treasury (JTT) is an initiative that builds on an open dialogue between four industry players to provide corporates with expert and innovative insights on key topics and potential game-changers.

This endeavour started eight years ago when BNP Paribas, SAP, PwC, and the European Association of Corporate Treasurers (EACT) decided to work together on a project with the aim of helping finance professionals solve some of the intricate puzzles that face the treasury teams of today and tomorrow.

The result of this unprecedented and long-standing collaboration is a series of multifaceted JTT reports – which get to the heart of some of the most important issues facing treasurers and finance professionals now and in the future.

For a treasurer, it's important to be able to rely on a precise roadmap and determine the objectives to be reached. Through the noise and confusion that echoes throughout the modern world of finance, crucial questions emerge from all sections

It's important to be able to rely on a precise roadmap and determine the objectives to be reached.

of the financial community. What is worth paying attention to? Which technologies and innovations are going to impact my decisions? What trends and initiatives will be truly transformative? Of the many initiatives underway, which will be key to my journey?

Building on conversations

Each year, our approach is simple: a conversation between the financial services industry, the systems providers, the consultants, and the associations of treasury professionals – all represented by the founders of this report. In JTT, each of the four contributing organisations offers their expertise gained from their own journeys through this bumpy – yet inspirational – landscape, structured around several sections. Corporate clients also kindly give up their time and expertise to add another dimension to this discussion, notably through the case studies included in this report.

The idea is to cover continued innovation, new technologies, new techniques, co-created innovative solutions, and hot topics in treasury. To determine these subjects, we use the annual EACT survey to identify the priorities and main projects of European treasurers.

While based upon the understanding and knowledge of today's treasury challenges, as well as the ability to anticipate the impact of transforming trends, JTT discusses advanced technological solutions and industry initiatives in the making. The aim is to help treasurers execute their missions properly and efficiently, while giving them examples of what their peers have done and what will sooner or later become a 'must-have'. The 2023-2024 JTT report reflects the current situation, examines treasury trends, and offers insightful case studies. It gives treasurers all the information they need to fully accomplish their missions, describing the latest innovations, the digitalisation of the function, and the impact of financial regulations.

Taking a 360-degree view

Every article in this report aims to distinguish myth from reality by providing a 360-degree view of a topic that is not just the usual consensus but something thought-provoking.

This annually updated publication is an indispensable tool offering a complete view of tomorrow's treasury in a single document.

Indeed, JTT contains everything but the usual mainstream messages around the fundamentals of treasury and the game-changers of the moment. As such, JTT is not a traditional report, it is more the minutes of a dialogue between experts from different industries with complementary viewpoints on treasury. In other words, JTT is a unique kind of whitepaper that aims to provide an end-to-end view of what is going on in treasury. The conversations range from discussing how financial tech players contribute to innovation to how a collaborative approach with banks and corporates is the key to success.

Sharing the knowledge

Over the year, our partners arrange panel discussions and podcasts around the main themes of the annual JTT publication, which we share with the industry via social networks. We have also organised a series of presentations in the form of interactive workshops, for example the Think Tank initiative, in various European cities, which aims to share key topics of interest with members of the treasury profession.

An indispensable tool

In summary, JTT is the publication that every treasurer must read and keep for future reference. It is designed to help them define the projects that must be tackled and offer insight as to what they can reasonably achieve within specific periods. We all know that treasurers do not have the luxury of unlimited time, which is why this annually updated publication is an indispensable tool offering a complete view of tomorrow's treasury in a single document. We hope everyone finds it interesting and fruitful reading – and we welcome your feedback.

HOW 2023'S TOP TREASURY TRENDS WILL IMPACT 2024 AND BEYOND

The annual European Association of Corporate Treasurers (EACT) survey always reveals several fascinating insights into the state of play of corporate treasury management across the continent. This year is no exception, with topics such as cash flow forecasting, data analytics, and centralisation proving to be top of treasurers' minds.

Cash flow forecasting is the main priority for corporate treasurers in the next 12 to 24 months, according to the 2023 EACT survey, with more than 43% of treasurers considering it their primary focus.

This activity remains fundamental to treasury, as it is essential to help drive the right decisions when managing investments, exposures, hedging, or raising debt. But the fact that it is the top priority also suggests that treasurers remain unsatisfied with the quality and reliability of the output from cash flow forecasts.

Didier Vandenhaute, Partner, PwC, comments: "Cash flow forecasts have recently been challenged by high market volatility and uncertainty, making it hard to be accurate. For example, the euro-dollar rate exchange went from 1.2 to below parity over the past year." Of course, cash flow forecasting isn't just about FX rates, he notes. "There is significant scenario analysis to be done - on everything from macroeconomic and geopolitical factors to weather conditions, depending on the company. So technology and data to help understand what impact certain events may have on the organisation's cash flow moving forward will likely become increasingly important."

Jan Dirk van Beusekom, Head of Strategic Marketing, Cash Management, Payments, Trade Solutions and Factoring, BNP Paribas, reflects: "The most surprising fact is that, over the past 30 years, the industry has not been able to solve the issue of cash flow forecasting – despite significant advances in treasury technology."

Building strong foundations

The EACT survey also reveals that working capital optimisation is the second highest priority for European treasurers, with treasury technology infrastructure in third place.

"I like that treasurers seem to have gone back to basics and are not distracted by novelties such as cryptocurrencies or AI, which, in my view, don't directly support the objectives of today's corporate treasurer," adds van Beusekom. "What treasurers are adopting are innovations that help them meet their core objectives of risk mitigation, control, and visibility."

At the other end of the treasury priority spectrum, regulations and partnering with stakeholders were very low on the list. This could be due to the back-to-basics approach noted, although there are other possibilities.

François Masquelier, EACT Chair, points out: "Even though regulation can have an impact, it's not top of mind for the corporate treasurer as they go about their day job. One reason is the long timeline between the consultation on a regulation and when it comes into law. For example, the current EMIR [European Market Infrastructure Regulation] review could have a potentially negative impact by removing the exemption for intercompany transactions. However, this may be two or three years away from being enforced. It's difficult for treasurers to project that far ahead when they have more immediate priorities."

Data and analytics under the microscope

When it comes to the technological innovations that European treasurers are prioritising, data analytics leads the way, as senior management increases the pressure on treasury to make use of the vast swathes of data flowing through the function.

Treasurers can't do real-time, end-to-end reporting without the use of APIs.

Christian Mnich, Vice President, Head of Solution Management, Treasury and Working Capital Management, SAP, says: "The appetite for treasurers to obtain more real-time data was always high. But with innovative technology, particularly provided by cloud systems, it becomes easier to collect data from various sources. This new technology can challenge heterogeneous system landscapes and distributed datasets, making it easier for treasurers to capture data."

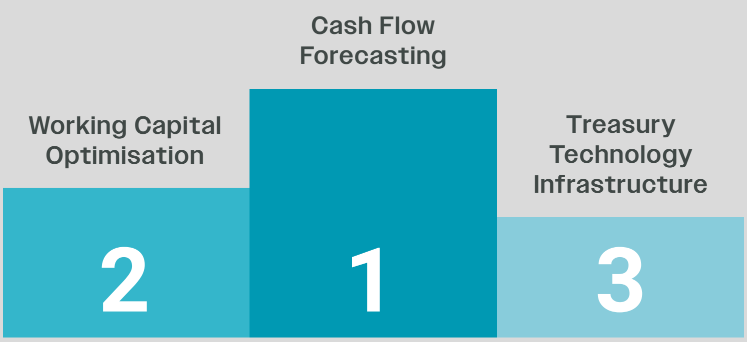
Data to help understand what impact certain events may have on the organisation's cash flow moving forward will likely become increasingly important.

Indeed, tools for collecting data – APIs and cloud solutions providing Treasury-as-a-Service – came in as the second and third most important technological innovations.

Van Beusekom highlights: "We already see excellent examples of the application of APIs. For example, at the Treasury 360° Nordic conference in Malmö this year, Norsk Hydro explained how they used APIs to set up the connections to make their bank transactions reflect directly within their ERP system. This gives them instant and global visibility of balances and transactions. This is a great example of how APIs immediately support treasury management objectives, in this case for visibility. Treasurers can't do real-time, end-to-end reporting without the use of APIs."

The challenge that treasurers have with APIs is the lack of standardisation in the market, with banks and technology firms developing API connectivity independently and as they see fit rather than by adhering to industry standards.

Major priorities over next 12 to 24 months



(Annual EACT Survey 2023)

Mnich notes: "Sometimes APIs can add complexity. APIs may have a different interpretation level so that the various data elements can change from one to another. This makes it difficult to bring this into technology and allow for a scalable solution that collates all the data."

APIs work best if treasurers are thinking from an end-to-end perspective.

Another element that treasurers must consider when implementing APIs is the end-to-end nature of their processes. A treasurer will ask the IT department to enable the technology to pull real-time information from the bank, but they should also consider the next step.

"Treasurers need to think about what happens after they receive the final statement from the bank to close the books. They have to ask themselves what process is in place to ensure the accounts receivable department knows that, for example, a customer has paid an invoice, which has been confirmed by the end-of-day bank statement," explains Mnich.

Many corporates trying to explore API capabilities have a hybrid technology environment. They could have APIs enabling them to capture cash balances, but still need to maintain the existing technology that helps them gain the typical bank statement information via the MT940 message type or account solutions into their system.

"A hybrid environment generates another level of complexity," adds Mnich. "APIs work best if treasurers are thinking from an end-to-end perspective."

Topics that pique interest

Elsewhere, the survey found that centralisation and standardisation are the most significant interests for treasurers over the next 12 to 24 months. This again plays into the back-to-basics theme, as treasurers seek to gain an accurate view of the cash held by their organisations through enhanced visibility and control.

Vandenhaute reflects: "The interest in centralisation comes from the post-Covid situation where there was an increased push from the CFO to have additional control and visibility at the central level, particularly over cash and payments. This continues today. At PwC, we have seen a large increase in projects to set up payment factories, for example, or further enhance the in-house bank set-up. This is not only true for the largest corporates but also for smaller organisations."

To support centralisation, treasurers need to have the right technologies in place. The good news is that those technologies are much more achievable today than previously, thanks to the growth of the aforementioned cloud platforms and API connectivity. This is particularly important considering the volatile environment of the past year.

Van Beusekom comments: "In turbulent times, it is more difficult to attain heightened risk mitigation, control, and visibility over cash. This can be a driver for centralisation as well as the nearshoring of supply chains." These processes also influence working capital and contribute to the broadening of the treasurer's remit.

"When it comes to control, we're seeing an expansion of the traditional treasury role – towards procurement on one side and marketing on the other, and to be able to have visibility on the purchase-to-pay and order-to-cash cycles," adds van Beusekom. "Treasurers will achieve a higher visibility grade if these processes are centralised."

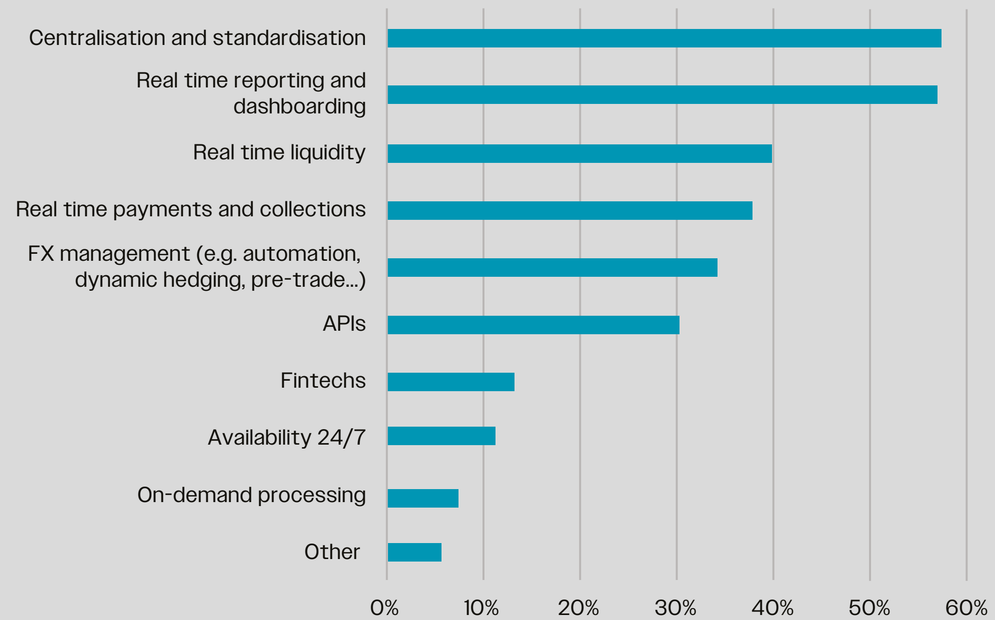
Aside from centralisation, the following three top interests for treasurers over the next 12 to 24 months revolve around real-time processes, with reporting and dashboarding, liquidity, and payments and collections all high on the agenda.

The prospect of a real-time treasury function is tantalising, but there are questions that treasurers need to weigh up when thinking about this future development. Vandenhaute urges: "Treasurers must consider what the risks are related to real-time, and in particular for real-time payments, which, crucially, have irrevocability as a core feature."

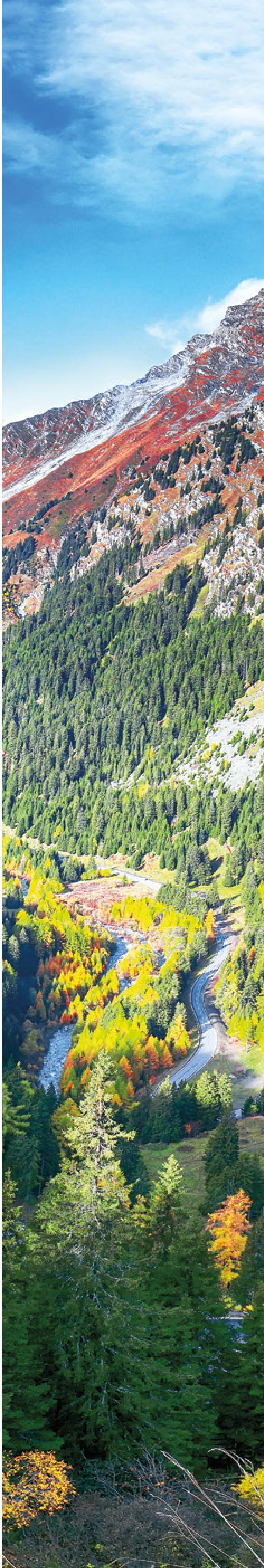
Even more importantly, treasurers need to understand whether their technology ecosystem – which may include a TMS, various ERPs, and different banking connections – is ready to consume real-time data. "Are the right treasury

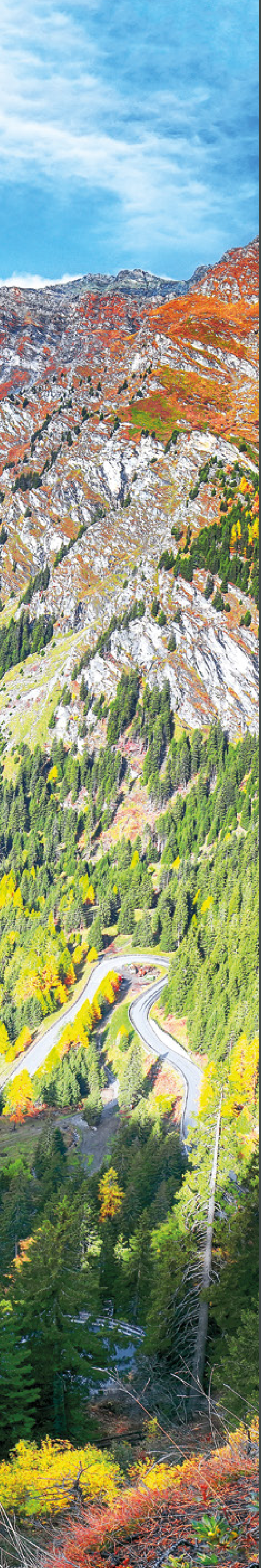
When it comes to control, we're seeing an expansion of the traditional treasury role.

Which of the following are likely to be of the greatest interest to your treasury over the next 12 to 24 months?



Source: Annual EACT Survey 2023





controls in place and ready for real-time consumption?" asks Vandenhaute. "Are treasury processes and the team ready? There are countless questions that treasurers need to ask before moving to real-time."

Surprisingly, fintechs do not appear in the survey's top five greatest interests. Treasurers are increasingly used to dealing with tech startups and solution providers that focus purely on one issue, but there are still some challenges in that relationship.

Masquelier explains: "When large multinational companies are selecting their suppliers, many CIOs [Chief Information Officers] are not at ease investing in the technology of startups without a clear view of the potential future of these companies. But increasingly, treasurers realise that these companies could offer interesting solutions that complement the missing pieces in the TMS, payment factories, and the overall treasury organisation."

Are treasury processes and the team ready? There are countless questions that treasurers need to ask before moving to real-time.

Overcoming obstacles to tomorrow's treasury

Despite all of the benefits and advantages offered by the innovations discussed, there are constraints on many treasury departments that are slowing, if not halting, their attempts to enhance operations. The EACT survey revealed that half of all European treasurers polled (50%) lack the budget to improve their processes.

"Treasurers should spend time calculating the qualitative and quantitative benefits of possible investments in the function, but there are also other challenges," notes Masquelier. "Compliance is important, and new incoming financial regulations could be an issue. Additional reporting requirements could create new challenges for the organisation, which may have to change some parameters in the business, the TMS, or the other tools treasurers are using."

It makes sense, then, that a need for more automation, standardisation, and a reduction of manual tasks is a trend reflected in the survey. The latter can include data collection from various points across the organisation to bring them into the end-to-end processing from a treasury point of view. Those elements can be seen as a springboard to compare with best practices and the latest technology. This would then enable treasury to build a roadmap of how to improve certain elements and make a compelling business case.

Mnich enthuses: "Payment factories are typically a solid starting point to consider from a business case perspective. This includes reducing manual tasks related to subsidiaries or business units, bringing that to the central group treasury level, adding automation to many areas, and thinking about the bank connectivity solutions in place. Centralising those processes can have a significant cost effect for treasurers."

Having a large number of bank accounts, legal entities, and complex group structure is the second most significant challenge facing treasury, according to the survey (45.7%), just ahead of difficulties in standardising processes and weak internal controls (45%).

Masquelier concurs: "Having a multitude of solutions can sometimes cause problems. Usually, IT architecture in treasury is quite complex because we are adding 'bricks on bricks' just to add new functionalities. This can quickly lead to a chaotic construction with many interfaces and manual processes. This is why it's time for many companies to consider changing the system and moving from an on-premise solution to a cloud solution."

Van Beusekom agrees that a cloud-based TMS can be part of an overall solution to reduce complexity in certain scenarios, together with outsourced expertise. "Treasury-as-a-Service is a rising trend in response to the challenges treasury teams are facing," he admits. "It is a topic we are discussing in our Treasury Board, where we co-create and innovate with corporate clients. This type of solution could support the implementation or temporary takeover of the complete treasury of a carve-out or spin-off, for example, which would help centralisation efforts."

ESG considerations

Alongside evolving technology, European treasurers are also exploring various ways to help support their organisations' ESG agendas. The primary method identified by the survey is through issuing green bonds or other sustainable borrowing. Additionally, revising processes, automation and controls to improve sustainability, reducing business travel and encouraging remote working, and setting up KPIs for career development in under-represented groups also made an impact this past year. Despite this, there is still more that could be done.

Vandenhaute comments: "Many corporate treasurers today consider ESG in the decision-making process, but few large corporates have a real treasury policy to address ESG measurements and reporting. And even fewer medium-sized corporates with below €1bn consolidated turnover have one. This is something that corporates still need to invest in."

For some companies, ESG is simply about investments or a way to gain access to credit, but the topic encompasses much more than that. For treasurers who want to access finance in the future and to be compliant, they must have the right tools in place to produce the reporting.

Masquelier warns: "ESG reporting is coming, and it will be time consuming, so treasurers must prepare. I have the impression that a limited number of companies are concerned about this and are considering how to be ready, but others definitely won't be ready, especially the mid-caps."

Being a strategic partner

Looking more broadly, it is clear that the 2023 EACT survey provides a snapshot of the treasurer's journey to support their organisation through centralisation and automation.

Masquelier reflects: "There is a quest for digitisation and we have placed much hope in new technologies and innovation, not only for cash management but also for fraud management. For treasurers, it's important to reinforce their threat responses and enhance internal controls. As treasurers have limited resources, it's also essential to be efficient and to free up time to play a more strategic, analytic, partnering role. Treasurers must automate if they want to focus on value-added tasks."

Vandenhaute agrees, commenting that the treasurer's role is increasingly evolving into being a strategic partner for the business. "For those that have not started the modernisation of their treasury operations, it is going to become increasingly difficult," he concludes. "If you are yet to start this process, it's now time to accelerate your modernisation journey and to start bringing additional strategic value to the table."

Treasury-as-a-Service is a rising trend in response to the challenges treasury teams are facing.

THE VITAL ROLE OF TREASURY ASSOCIATIONS IN LOBBYING REGULATORS

Lobbying to influence regulatory initiatives is an increasingly important part of the work of national treasury associations. Indeed, one of the EACT's stated aims is to "Advocate and in general seek to influence regulatory and other initiatives within the European Union and internationally, wherever these initiatives impact how treasurers can operate to reduce financial risks, add value or address their responsibilities". Here, Noëlle Belmimoun, Senior Legal Counsel Bank and Finance, Arcelor Mittal and Head of the Compliance Commission at AFTE, and François Masquelier, the EACT Chair, share their thoughts on this vital function.

An unprecedented and ongoing expansion of legislative and regulatory directives has been noticeable since 2011, says Belmimoun, and they are becoming increasingly complex. "The motives of regulators seem clear: to increase the transparency and knowledge of financial market activities," she notes. And this has led to a significant impact on the treasurers of non-financial companies.

Regulatory monitoring activities are becoming more difficult and time consuming, and now represent, she says, a real challenge for corporate organisations. Companies do not always have someone with the necessary legal and operational skills to keep abreast of all the relevant documentation and assess its impact on their business. It is therefore all the more important to "contribute to and rely on the regulatory survey carried out by national treasury associations and the EACT, which carry out effective and useful work for the corporate treasurers' community, often without recognition," emphasises Belmimoun.

She cites as an example a case involving the European Markets Infrastructure Regulation (EMIR) 3.0 regulation where the deletion of just three words in an early version of the text, which potentially put EU companies at a major disadvantage, was first noticed by a national treasury association (NTA). This was then promptly communicated to all EU NTAs and contested by the EACT. Discussions are ongoing.

Masquelier strongly agrees. "Never forget that there are people looking out for your interests while you are focused on your job as treasurer. Who would want to read 50 to 100 pages of a discussion paper, directive, by-law, draft by-law, minutes of a public meeting etc? No one, unless they are hyperactive! I think all treasurers should recognise the work done by their associations and the EACT. And I am sure many are grateful that their peers advocate for them, even if they do not publicly say so." After all, somebody must measure, calculate, appreciate, and estimate the impact that a measure or directive can have on their business, he says.

Current regulatory threats

In March 2021, the European Commission announced a legislative proposal to revise the EU Financial Regulation to align it with the 2021-2027 multiannual financial framework.[1] As a result, Belmimoun emphasises how important it is for treasurers of non-financial companies to pay particular attention not only to the changes underway but also to the emerging legal framework that will affect them in future. "The regulations are numerous," she continues. "They are becoming increasingly precise and complex, which requires significant legal monitoring work in addition to operational expertise to assess all the potential negative consequences and draw the regulator's attention to the structuring impact these regulations could have in the real economy."

1 https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/698787/EPRS_ATA(2021)698787_EN.pdf

I think all treasurers should recognise the work done by their associations and the EACT. And I am sure many are grateful that their peers advocate for them, even if they do not publicly say so.

Belmimoun also points out that throughout the recent regulatory review initiated by the EU, regulators have strengthened their oversight of non-financial organisations. Treasurers need to be especially diligent regarding existing and future regulatory changes that have a direct impact on their business and also on the obligations incumbent on financial entities that may have an indirect impact on their customers.

Some of the major regulations currently being analysed are:

- EMIR 3.0
- Markets in Financial Instruments Directive (MifiD)
- Digital service providers (DSP) Directive
- Markets in Crypto Assets Regulation (MiCA)
- Discussion on a digital euro
- Capital Requirements Regulation and Directive (CRR3/CRD6)
- Regulations related to ESG requirements – such as the Corporate Sustainability Reporting Directive (CSRD)

Associations often work in the shadows, taking part in unrecognised and thankless monitoring activities.

Recognising hidden heroes

NTAs and the EACT play a considerable and significant role in what she characterises as “the often thankless work of analysing these and other pieces of regulation for the benefit of treasurers”. The work involves monitoring and analysis, exchanges with legislative and decision-making bodies and with the treasurers in different sectors in order to bring relevant material to their attention. “Associations often work in the shadows,” Belmimoun says, “taking part in unrecognised and thankless monitoring activities” that require time and energy and which, while they are focused on obtaining a ‘business-friendly’ result, generate little or no recognition.

As a founder member and current Chair of the EACT and former President of the Association of Corporate Treasurers of Luxembourg (ATEL), Masquelier is well aware of the dedication of the associations’ unsung heroes and is deeply appreciative of the value of “the lobbying profession”.

“There are a thousand reasons to thank our national associations and the EACT. I want to pay tribute to and thank those who look after our interests and do so without fanfare, without publicity, without any compensation, and without asking for the slightest thanks, however well deserved.” Masquelier adds he has been aware of the EACT’s efforts to support treasurers for more than 20 years. It is easy, he says, to forget about an ill-conceived measure or a flawed idea when its adoption has been prevented by the intervention of “a pro-active, curious and protective peer”.

Finally, Belmimoun adds a heartfelt plea: “I would like to make an appeal,” she says, “for companies to get involved in calls for contributions from associations, as their involvement helps their associations to provide a prompt and appropriate response to regulators when an issue is identified.” After all, working together, and providing as much evidence to the regulators as possible to help them understand the unintended consequences on corporates, can only be beneficial for all parties.

GE HEALTHCARE CASE STUDY

BUILDING A TREASURY FUNCTION FROM SCRATCH

When GE HealthCare was separated from GE to become an independent organisation at the start of 2023, a new treasury function was also born. The treasurer managing this process started with a blank sheet of paper and one crucial deadline.

This year began with a bang for Robert O'Keef, Corporate Treasurer, GE HealthCare, with his organisation becoming newly independent from the GE 'mothership' on 4 January 2023.

"It's been quite a journey," O'Keef reflects. "I joined GE HealthCare about a year before the spin-off. When I arrived, we were a $20bn leader in MedTech diagnostic imaging company inside of GE. Treasury was handled by GE Capital Treasury, a highly professional treasury operation but one that was really created to service the $650bn bank that is GE Capital, along with the industrial companies that GE owned and operated. Arriving at GE HealthCare, it was essentially just me in treasury."

The professional challenge faced by O'Keef was huge. He was starting with a clean sheet and tasked with building a fit-for-purpose treasury function in a complex, global functioning business in a timeframe where it could be separated from GE in a year.

"Professionally, it has been fascinating, but it's not for the faint of heart," he quips.

Grand designs

Having been in and around corporate treasury for more than 30 years and served as a treasurer in several companies, O'Keef was well versed in that element of his new role. But the MedTech space represented a sector that was brand new to him.

"Our colleagues at PwC, BNP Paribas, and some of the other institutions we work with got me up to speed very quickly on the MedTech side of things, the peer benchmarking, and key design choice points and considerations that are very specific to the industry," he recalls.

One compelling aspect of the treasury journey at GE HealthCare is that it has followed a 'from-to' model, inheriting much of the treasury technology and processes from GE.

"This is great technology, world-class process and, frankly, world-class people," enthuses O'Keef. "The question was, how much of that was fit for purpose for our new organisation? Some of it, definitely, but not all of it. For example, we are moving from 36 major technology elements in the treasury tech stack at GE Capital down to nine. The 36 were optimised for something different – it was a super-impressive process and technology, but just too heavy for the GE HealthCare business."

This move typifies another part of the 'from-to' journey that treasurers might not intuitively expect – the need to sub-optimise somewhat in terms of technology and process to enable the creation of a functioning treasury from the get-go.

Job one was to de-risk the spin-off, to stand up the organisation and not fumble the ball.

"You accept technology that's a little bit worse, by which I mean can the TMS do hedge accounting that's good enough for a $20bn company, or do we need the niche hedge accounting software that the $650bn bank required?" explains O'Keef. The phrase 'good enough' was often used. In a typical, established treasury function, we're all trained to continually optimise, get better, align things tighter, get better control, systems, and process, but the ask here was different."

Treasury 2028

While creating a functioning treasury department that could be operational from day one of GE HealthCare as an independent business was a critical consideration, it was not the only goal for this project. O'Keef was also tasked with an

exercise dubbed 'Treasury 2028', which was about prioritising what would matter the most for the treasury function over the next five years or so.

"Job one was to de-risk the spin-off, to stand up the organisation and not fumble the ball," acknowledges O'Keef. "Job two was building out that plan. We've spun off, stabilised, and are about ready to exit GE's transitional service agreements, so we'll have our own technology stack and highly trained, super-efficient staff in the next couple of months. The next step is to start to optimise around that with 2028 in mind."

By establishing the potential for 2028, treasury could reverse engineer that to 2023 to ensure that decisions made today would not reduce the optionality to achieve the 2028 vision.

"Treasury 2028 starts with deeper business integration," explains O'Keef. "In a business this size, treasury needs to be part of daily strategic and tactical dialogue. That's probably the hardest piece – when you're in a business that has had treasury embedded in it for a long time, you don't think about it – your FP&A [financial planning and analysis] and cash flow teams are plugged in, your IR [investor relations] team understands what they need from you, and you're arm in arm with legal, tax, and accounting. In an organisation that's never had treasury embedded into the business, sometimes people don't know what to make of our corporate finance skill set."

Picking the right partners

Choosing the correct external partners is vital when embarking on building a new treasury function. Fortunately for GE HealthCare, PwC had been embedded in GE's transformational journey over the decades, which added value to O'Keef's mission.

"PwC were helpful, first in helping me understand the history of why what I'm inheriting looks the way it does, and what the choice points and considerations were," he says. "Second, from their 'outside-in' perspective, I suspect they enjoyed that I had a blank piece of paper so I could quiz them on how other clients think about certain things or ask what market best practice was for specific processes."

Further perspectives were then added by looking at the project through the banking lens, O'Keef adds. "In a situation like this, I can ask the banks such as BNP Paribas and other partners how they help their clients, what's core functionality for me and what should be non-core. It's been about unpacking insights from more than a dozen institutions, a handful of consultancies, and dozens of my peers. I've learnt a lot, and what we've constructed here is very different than what I would have built had I drawn it all up on day one – or all by myself."

Understanding what matters

Creating a brand-new treasury function from scratch is an ambitious project. Every decision made throughout the development phase could considerably impact the final result and how treasury operates in the coming years.

"When you start with a blank piece of paper, there are tough choices to be made – do you invest in an employee or in an asset for this process versus another?" comments O'Keef. "You also have to talk to the business partners and help educate them about what you can deliver based on the type of capabilities you build. Going through a project like this forces you to reflect on what matters."

For O'Keef, treasury has a unique lens on the organisation that enables treasurers to see many elements no one else does. How a treasurer leverages that knowledge and applies their skills can significantly impact how they deliver value to the organisation.

"With this special knowledge and visibility that we have, it is vital to build that out and educate the wider business on what we can deliver," he concludes. "In turn, they can open up and let us in treasury learn more about the business. This collaborative approach style means that the whole organisation's value delivery goes up exponentially."

MITIGATING M&A MINEFIELDS WITH TREASURY-AS-A-SERVICE

EASY TREASURY CASE STUDY

An innovative offering from BNP Paribas, Easy Treasury, is enabling new legal entities arising from M&A activity to stand up a fully operational treasury department from the get-go.

Large corporates and multinationals often face a common pain point when they create a new legal entity or when they spin off a part of their business due to an M&A process. Frequently, it is not until late in the planning stage that the treasury function for the new operation is considered.

This vital issue tends not to be adequately addressed by the M&A team because it is not, on the surface, an essential part of the deal. It is invariably left to the parent company's group treasury to organise at the last minute. An ad hoc project of this dimension suddenly landing on their to-do pile can test even the most organised teams.

Faced with this challenge, organisations may choose to replicate the parent company's treasury structure or install a new platform and recruit new treasury talent. The issue is that both options can drive up costs considerably and/or take up significant time (as noted in the GE Healthcare case study on page 14 of this report), which can impact the parent company's treasury team and, even worse, cause delays in finalising the deal and launching the new entity.

Creating the business solution

Identifying this concern in the market, BNP Paribas partnered with strategic corporate clients, from pharma to large industrial groups, to co-create and develop an innovative solution called Easy Treasury. The bank's new offering is a plug-and-play treasury-as-a-service (TaaS) solution explicitly designed to help fresh legal entities set up and launch a new treasury unit within a short timeframe – typically three to four months.

This includes cloud deployment of a multibank treasury platform that manages the operational risk, with BNP Paribas having selected Kyriba through an independent RFP process. And with the platform comes a fully-certified treasurer – so there are human resources included in the solution too, alongside a control framework. In turn, this helps to accelerate the implementation timeframe and ensure smooth running from day one, while keeping operational risks under control.

As Vincent Marchand, Head of the Fintech Lab, Cash Management, BNP Paribas, explains: "A critical issue when launching such a treasury function is the time it takes to go live. Usually, when a company starts working with a technology vendor or another institution, they will have to start with an in-depth assessment followed by a workbook setting out the needs of the new legal entity. This process takes several months, but with Easy Treasury this stage has already been completed through a best-in-class treasury platform already plugged in and tested with BNP Paribas' IT environment, saving months of project time for the client."

A vital feature of the offering is that it is a transitional solution to help those new companies to start a treasury with the right processes, people, and platform – and designed to be used for an interim period of approximately 12-24 months, according to Marchand. The solution enables treasurers to pay employees' salaries and suppliers' invoices, execute basic treasury operations in areas such as spot, forward, term deposits and MMFs, as well as achieve full visibility and predictability on their cash across geographies (see figure 1).

Due to the transitional nature of Easy Treasury, another critical feature is its offboarding element, with a team to assist the client when they decide to unplug the solution and move to their permanent treasury ecosystem. "The user can retain the history of all the transactions from the platform and either transfer it to a standalone Kyriba platform, if they want to continue that relationship, or use any other TMS they have in mind," Marchand explains.

The fact that BNP Paribas manages the platform, via a dedicated HR partner, and is also the banking partner is a factor that could concern some

A critical issue when launching such a treasury function is the time it takes to go live.

treasurers. But to pre-empt this being an issue, the bank has placed Easy Treasury in a separate legal entity of BNP Paribas to the cash management entity. The use of certified resources and the temporary nature of the solution also helps set treasurers' minds at ease.

More than meets the eye

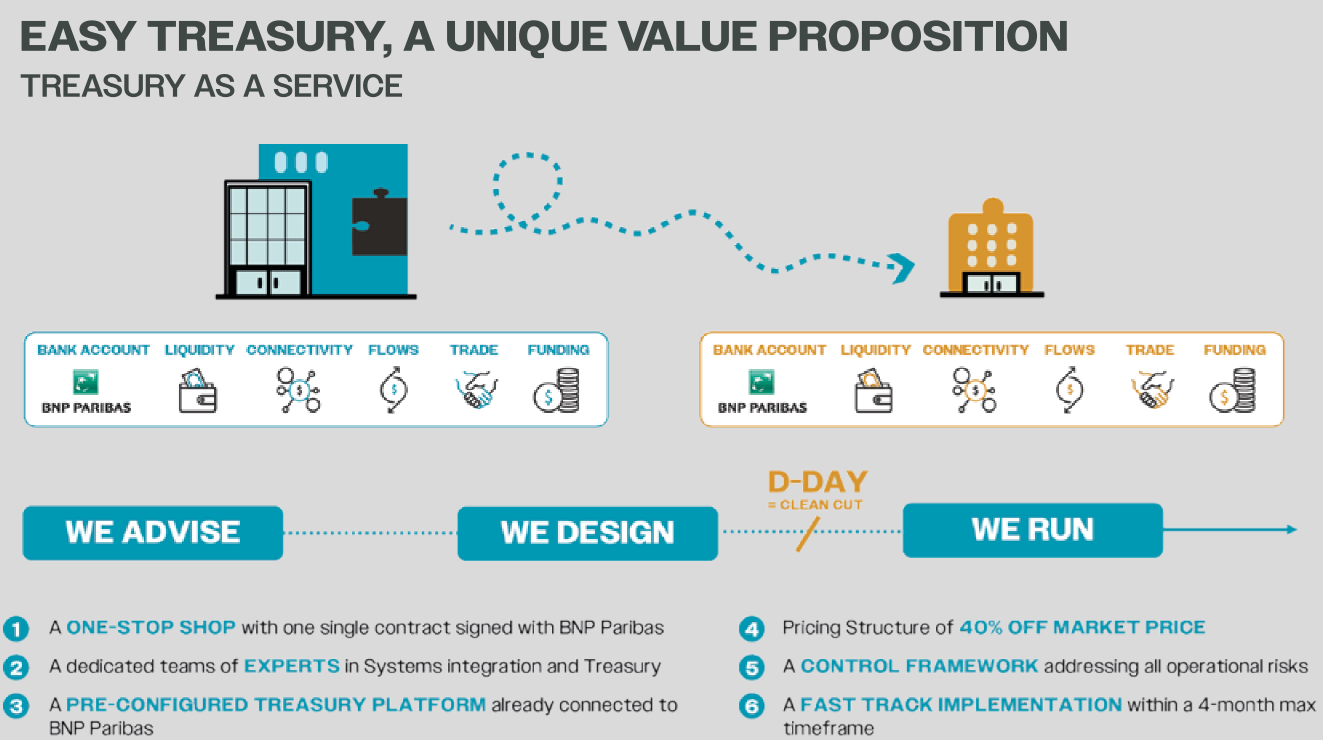
Developed over 18 months, Easy Treasury launched in June 2023. There is a large geographical scope focusing initially on European countries, and BNP Paribas is already seeing strong interest in different verticals, including the automotive, chemical, pharmaceutical, and renewable energy industries – all sectors that regularly create spin-offs and carve-out businesses.

Interestingly, while Easy Treasury was initially conceived to ease the life of the parent company on the sell-side, it has also increasingly been seen as a buy-side solution. "Industrial buyers and private equity companies often acquire companies that have no idea where their cash is," comments Marchand. "These businesses tend to have no cash visibility and are still working on spreadsheets. While they may have some expertise in treasury, it is not necessarily comprehensive. Having that risk control framework in place from the outset means valuable time isn't wasted during the early days and weeks."

In short, Easy Treasury demonstrates that TaaS can address some of the most significant pain points in business by helping new legal entities hit the ground running with a fully functioning treasury.

With the platform comes a fully-certified treasurer – so there are human resources included in the solution too, alongside a control framework.

Figure 1: Easy Treasury overview



MANAGING TREASURY'S REGULATORY BURDEN

A range of regulatory proposals that could fundamentally change how treasurers operate are coming down the line. Some could arrive sooner than anticipated due to the upcoming EU elections, so it is vital to be prepared.

Financial regulations govern various aspects of corporate treasury operations. New regulations or changes to existing laws can have a material impact on how treasurers go about their work. This is a significant challenge today, with a flurry of regulatory activity in Europe on the horizon.

François Masquelier, Chair of the European Association of Corporate Treasurers (EACT), comments: "At the EACT and through our Financial Regulation Advisory Group [FRAG] initiative, we have identified 15 areas of potential regulation that could impact corporate treasury. Out of all these, the most important at the moment is EMIR [European Market Infrastructure Regulation], given its timing – it could come rather fast – and because of the potential huge additional administrative and reporting costs if treasurers have to once again report intercompany OTC transactions."

MMF reform is another critical issue. While that appears to be going in the right direction, the collapse of Credit Suisse in March 2023 could tempt the regulator to reinforce controls despite the resilience MMFs showed during the turmoil following a significant reform a couple of years ago. The same over-correction is a concern hovering over Basel III. Another issue surrounds ESG reporting, which is evolving.

Ellen Cortvriend, Partner, PwC Belgium, explains: "The tax transparency requirements are something to monitor, which are also somewhat linked to ESG reporting. Tax authorities are trying to focus on the creation of real-time visibility in the transactions of corporate taxpayers. This is being pursued for various reasons, such as to reduce VAT fraud and to close the VAT gap in Europe."

Increasing regulations from a tax perspective are focused on creating real-time risk profiling of taxpayers based on the information obtained either via real-time reporting or e-invoicing. Lirka Bibezic, Head of Product Management, Receivables, BNP Paribas, notes: "Regarding e-invoicing, there is the EU proposal of ViDA [VAT in the Digital Age]. This is a tax transparency obligation for all Europe, which will become very important for all treasurers around the continent."

It is critical to understand that there is a tsunami of regulations under construction.

Then there's the PSD2 review, PSD3 proposals, and instant payments. The latter may be the most urgent because it was one of the priorities of the Swedish presidency of the Council of the European Union.

Masquelier comments on why time is of the essence here. "We know that the coming months are important because what will not be done under the Swedish presidency [from January 1 to June 30 2023] or the Spanish presidency [from July 1 to December 31 2023] will not be done under the Belgian presidency [from January 1 to June 30 2024] – that will be too close to the end of the current Commission and the elections in May 2024, so it will be quite impossible to move. This year is important for these regulations, as some issues could be postponed."

Linked to instant payments regulation is the IBAN check obligation. Mandatory in the UK through Confirmation of Payee, this obligation is part of the proposed 'Instant payments in euro' regulatory amendment currently with the European Parliament. This will impact corporates with POBO/COBO structures, as any incorrect subsidiary details could upset these delicately balanced payment structures.

"These are the key regulations to focus on for corporate treasurers, but it is critical to understand that there is a tsunami of regulations under construction or review that could impact treasurers," reflects Masquelier.

EMIR concerns

Taking a deeper dive into some of the regulatory proposals mentioned, it is logical to look at EMIR first. Last year was the 10th anniversary of EMIR. When the regulation was being set up, treasury representatives fought to get the collateral obligation removed for over-the-counter (OTC) derivatives.

"Corporates and indeed all interested parties, including the national supervisors, were pleased with where this regulation has evolved to, especially after the EMIR Refit that followed four or five years ago," says Masquelier. "At the regulation's inception, we concentrated so much on removing the obligation of posting collateral that we essentially overlooked the fact that the regulator imposed intercompany reporting. This was corrected with the EMIR Refit that is due to go live in 2024."

However, recent market volatility, particularly in the energy sector, has brought EMIR back onto the regulatory agenda. The European Commission (EC) has reacted to the fact that some European countries were forced to bail out energy companies, but the proposed changes affect regulated and collateralised products.

"These measures could impact OTC derivatives, among other products," states Masquelier. "We believe that removing the exemption of intercompany transactions would be a key issue for corporate treasurers and could have a huge impact on additional reporting, especially for smaller companies."

The second significant change for EMIR revolves around the hedging definition, specifically to give power to the European Securities and Markets Authority (ESMA) to review and reduce the definition of hedging potentially.

"We feel that, due to the recent crisis, ESMA could be tempted to restrain and narrow the hedging definition," adds Masquelier. "We believe it would be better to stick to the IFRS [International Financial Reporting Standards] principle-based rules for hedging than to have stricter rules. To bring in a different definition of hedging to that of IFRS for accounting and financial reporting would be nonsensical."

MMFs demonstrate resilience

For MMFs, the European regulation is on its second major review in recent years. The initial market reform was relatively significant and came into force in 2017.

"The current regulation works quite well," enthuses Masquelier. "We had a live stress test of the most recent reform during Covid and with the ongoing war in Ukraine, and MMFs performed as well as we might have hoped."

With interest rates picking up, MMFs are proving to be an essential investment option for European corporates, but that is only part of their appeal, as Masquelier notes.

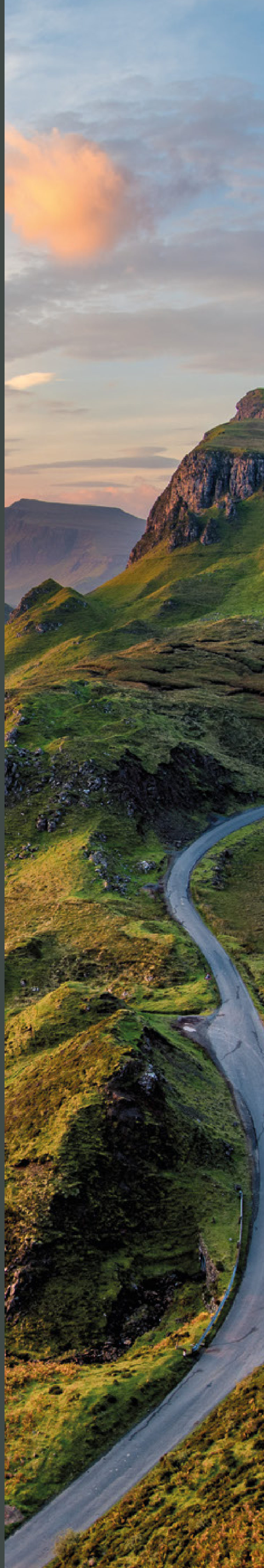
"People know that MMFs are important for cash-rich companies, but they are also vital for cash-poor companies because if you issue some paper, you need someone to buy it," he says. "MMFs are one of the oils in the economic engine of Europe. We need them, especially when we talk about a capital market union at the EU level, to better balance capital markets versus bank borrowing."

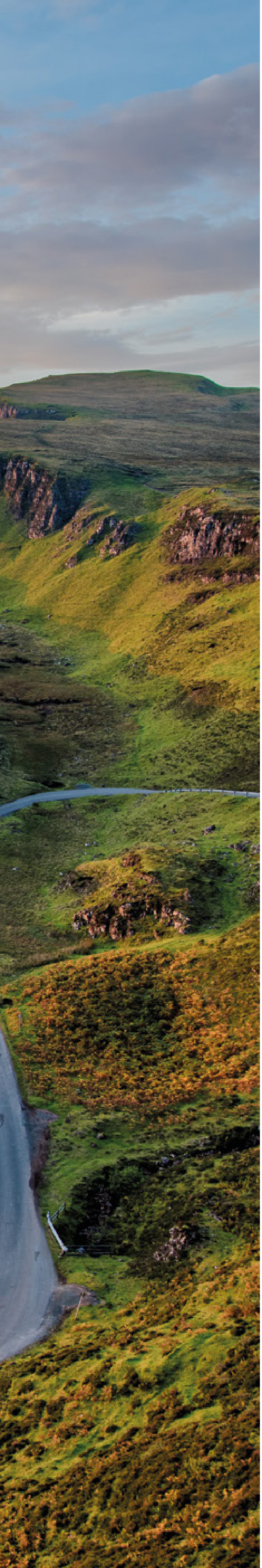
The EC is weighing up two critical targets for the new MMF proposals. One addresses liquidity by ensuring the mandatory availability of at least one liquidity management tool for all MMFs. It also suggests amendments to the daily liquid asset/weekly liquid asset ratios and the inclusion/reinforcement of the possibility of temporarily using liquidity buffers in times of stress.

"The most recent rules that were implemented are functional, but if they go a step further, as corporates, we are afraid that some fund managers could be tempted to increase the fees to compensate for the extra cost and reduce the returns. If the regulators increase the buffers, it will be at the expense of the net return for the investors," comments Masquelier.

The other main target of the reform proposals is to address the threshold effects for constant net asset value (CNAV) MMFs by decoupling regulatory thresholds from suspensions, gates, and redemption fees for low volatility net asset value (LVNAV) and public debt CNAV (PDCNAV) MMFs, and removing the possibility of using amortised costs for LVNAV MMFs.

"The LVNAV is the ultra-short low volatility product that corporates are keen on because it provides a quasi-guarantee of the principal and daily liquidity," notes Masquelier. "It could also be tempting for some industries or companies to exit the MMF





business, leading to over-concentration. While it could be good to have more robust and bigger players, in terms of competition, it could have a negative effect and create concentration risk."

Mandatory e-invoicing across Europe

Elsewhere, a regulatory push happening state-by-state across Europe is the gradual roll-out of mandatory e-invoicing, encompassing B2B and B2C payments. Previously, e-invoicing was mostly implemented by companies in the spirit of process efficiency and automation. For treasury, e-invoicing allows for faster, more accurate invoice processing, improving overall cash flow management. For example, e-invoicing reduces the time between the invoice receipt and the payment. Today's push for e-invoicing by governments has a different motivation, however.

Cortvriend comments: "E-invoicing and real-time reporting can give tax authorities instant insights, on a transaction-by-transaction basis, into all the inbound and outbound transactions of a company. They use this data to reduce the VAT gap, which is the difference between what they should collect and what they receive."

In Europe, member states like Spain and Hungary have already gone in the direction of real-time reporting, collecting transactional invoice information very shortly after an invoice has been issued. Also, an increasing number of member states are moving towards mandated e-invoicing. Italy was the first European country to go in this direction, but Poland and France have signalled an intent to launch mandatory e-invoicing schemes in July 2024. Other major economies, such as Germany and Spain, are looking into it. Belgium has already expressed its intention to move towards e-invoicing, as has Romania and others. This is a clear trend across Europe.

"Businesses are increasingly starting to formulate a tailored strategy to deal with these requirements," adds Cortvriend. "Before, they used local point solutions to handle one requirement at a time as they emerged. But today, there is a move by leading corporates to formulate a global, holistic strategy to deal with requirements, where they try to involve all stakeholders that are affected by these types of regulations. For e-invoicing, that includes finance, tax, AP/AR, IT, and treasury."

This type of strategy can help corporates move away from a reactive mode to a situation where they clearly anticipate what is coming and manage the changes centrally without having to recreate a project for every requirement that comes their way. It also integrates with the broader trend of digitalisation.

Corporates should have a central team within the company responsible for monitoring the regulatory changes as they are happening to ensure they can stay ahead of the curve.

Bibezic reflects: "It's important that the treasurer is aware of this regulation, takes control of it and ensures that they take the lead in the organisation. We often observe that the finance department is dealing with the regulation. However, the treasurer is the one really impacted by the regulation in terms of DSO [days sales outstanding], for example."

Linking digital tax, supply chain management, and MMFs

A harmonised approach to the e-invoicing revolution means considering that VAT in the Digital Age (ViDA) is coming. While this mainly focuses on intra-European transactions, it will also cover domestic markets as the idea is to avoid siloed regulation.

Thanks to the ViDA regulation, member states will be able to regulate the invoicing in their country directly," adds Bibezic. "This is a big change for all member states, and some countries are now waiting for the ViDA proposal since they will be exempt from having to request a derogation from the EU to extend the scope to B2B transactions."

Certain countries won't initially comply with the ViDA regulation and will have to change their local regulation. While various European countries are starting to publish their digital tax regulations, they are not harmonised.

"Treasurers must consider this lack of harmonisation because most have complex company structures or subsidiaries everywhere across Europe, so it's vital to ensure they're compliant everywhere," continues Bibezic. "There is also the question of the POBO/COBO organisation and everywhere where there is a payment on behalf. Changes here will impact how treasurers work today. Indeed, it might not be allowed anymore."

The e-invoicing regulation will also increase focus on supply chain management within corporate organisations, with the supply chain being the prior step of the invoicing process.

"Supply chain management should be part of an e-invoicing project within a corporate organisation," asserts Bibezic. "It's a unique opportunity to digitalise the overall life cycle, including the supply chain, and to enhance processes from the order through to the payment cycle. This is a way to digitalise that which is rarely digitalised."

While the e-invoicing regulation has a clear link to corporate supply chains, its tentacles could also reach another of the topics discussed earlier – MMFs, as Bibezic explains.

"The MMF reforms will be vital for all European corporates," she states. "There might be a clear link between the possibility of the DSO reduction thanks to the digitalisation of the invoicing process that could help the treasurer comply with future MMF requirements, in terms of the accuracy and predictability of the incoming flows."

Supply chain management should be part of an e-invoicing project within a corporate organisation.

With such a range of regulatory proposals in the pipeline, corporates have to find a way to track what is happening and when and how any changes will impact their operations.

"It links back to preparing a decent strategy to deal with regulatory changes as and when they are coming," suggests Cortvriend. "Corporates should have a central team within the company responsible for monitoring the regulatory changes as they are happening to ensure they can stay ahead of the curve. Also, ensure that the technology they have in place can support them, not only with the current obligations but also with the future upcoming requirements."

The need to prepare a strategy rather than simply being reactive stems from the fact that the upcoming regulations are so demanding and impactful. No business can afford to simply to wait for them to come along and then start to address them.

"There is a real need for treasurers to not only be aware but also to participate by attending the right working groups and to be part of all the associations at a European level dealing with those regulations," advises Bibezic. "They're asking for large organisations to be part of the process, and corporates must give their voice. The regulators have their view, but they don't see what changes could mean in terms of daily operations."

On a European level, the EACT aims to be the voice of corporate end-users and ensure that the community is heard in the development of financial regulation. "The EACT's main objectives are to promote the treasury profession, support the professional development of treasurers in the NTAs, but also advocate on regulatory and other initiatives within the European Union and internationally that impact how treasurers can operate," concludes Masquelier. "Corporate treasurers, through their local treasury association, can engage with the EACT and help the Financial Regulatory Group (FRAG) to influence EU bodies."

SURFING THE ECONOMIC VOLATILITY WAVE

WITH AUTOMATED INVESTMENT MANAGEMENT

DASSAULT SYSTÈMES CASE STUDY

In 2023, European interest rates hit a peak not seen since 2001. Automating short-term investment processes enables treasurers to take advantage of these conditions while also bolstering counterparty risk practices. This is precisely what the treasury team at Dassault Systèmes has done.

Technology plays a critical role in the cutting-edge world of 3D product design, simulation, and manufacturing. For the multinational company Dassault Systèmes, a pioneer in this sector, deploying the best technology is critical for the organisation as a whole and the treasury function specifically.

John Colleemallay, Senior Director, Group Treasury & Financing, Dassault Systèmes, comments: "State-of-the-art technology is in the DNA of Dassault Systèmes and in the DNA of the treasury that I lead. It permeated the thought process around the tools we implement, and the way we manage cash and treasury. Indeed, we've always tried to find a very lean way of working – meaning that we have interconnected systems where possible and avoid manual intervention."

A recent example of this can be found in how the Dassault Systèmes treasury team manage their short-term investments. The treasury department has teams in the US, Asia and EMEA. Cash management, and specifically investment management, is a fully centralised function in the firm's global headquarters in France. Every day, group treasury would wait for cash to be pooled into one account in London and then invest the cash from this account. However, the global nature of the treasury structure was creating certain inefficiencies.

"With the US east coast being six hours behind France, we were in a position where the cash coming in from there could not be invested on the same day as we had a cut-off time of midday, Paris time," reflects Colleemallay. "That was when we had to close the books and invest everything before moving on to the next day."

Finding a better way

A solution presented itself when Colleemallay attended a Kyriba conference. At the event, representatives from multinational investment company, BlackRock, mentioned they were partnering with Kyriba to offer an automated investment solution. Called Cachematrix™ by BlackRock, this solution uses the Kyriba cloud to offer a single sign-on solution to digitise corporate investment workflows.

"This piqued our interest because we make many investments on the money markets," notes Colleemallay. "It offered a good way of directing all our investments through our TMS. The goal was that it would not only optimise our cash investments but also save us money. For example, we would save on the custodian fees. Everything is embedded in Cachematrix™ itself, so we no longer need the custodian. The annual savings we achieve immediately makes the project a winning one."

The tool also offered a solution to Dassault Systèmes' same-day investment issue. Even the cash generated in the US can now be invested on the same day by the team based in France, as Colleemallay explains.

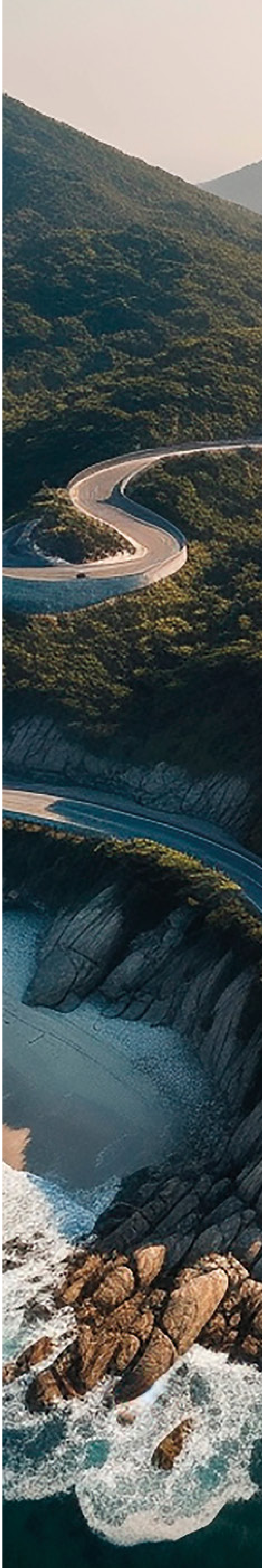
"Cachematrix™ enables us to extend the cut-off time until 3pm Paris time. This is 9am New York time, which means that our teams in the US can give us the information on the excess cash they have – and move that to us – on the same day. In turn, we can also invest the cash on the same day. Saving a day in the process is significant."

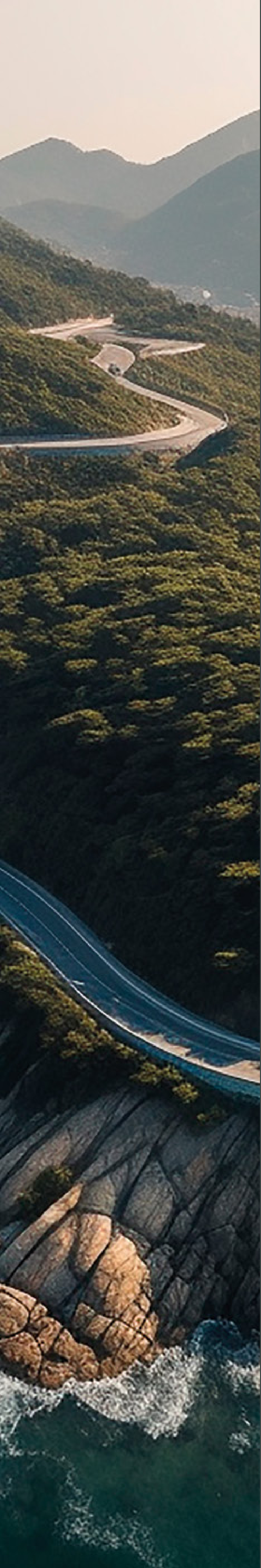
Unlocking the automation

Another benefit for Dassault Systèmes is that the investment tool is completely embedded within the TMS. "The solution sits within our Kyriba TMS, and it is a completely secure system with a single sign-on," he says. "When we sign into Kyriba with our Windows password, we're into the TMS and have access to cash markets. The system is completely secured all the way through, which is important because we are naturally very cautious about security."

Valérie Maniere Rochedy, Director, Group Treasury, Projects, Integration Processes & Systems, Dassault Systèmes, adds that setting up Cachematrix™ was relatively straightforward because it is embedded in Kyriba. "Of course, we had to do some documentation with our funds because we had to open direct accounts with them," she notes. "This step entailed quite a lot of work, but this needs to be done only once, at the beginning. After that, it was relatively plain sailing."

From a systems perspective, using the solution gave the company much greater control over its investment management. "One of the benefits of this tool is that we can segregate duties between





traders and approvers," adds Rochedy. "We were able to introduce the four-eyes principle and increase the security of the process."

Visibility and control

It is around a year since Dassault Systèmes' treasury team set up the tool and started using it. Getting all of the funds onto the platform has been a phased process, as it has required discussions between treasury and the asset managers to bring the latter on board. Still, increasing numbers of funds that treasury wants are being transferred onto the platform. This is particularly vital when considering the economic environment in 2023.

We can define limits in terms of the approvals and apply ratios regarding country risk, counterparty risk and similar measures. This is a useful risk management tool.

Colleemallay comments: "With interest rates rising, we are increasingly returning to MMFs. If you talk to the corporate treasurers, they will tell you that they mainly invested in bank deposits over the past 10 years, rather than MMFs, as the latter yielded negative rates. Today, with the rates picking up, we are all going back to MMFs. We are bringing the new funds we are now using onto the platform, so most of the funds we need will soon be there."

Seeing all of the MMFs in which treasury is investing in one place also brings benefits on the reporting side, with visibility into where the cash is and when the funds are coming due. There are also counterparty risk management benefits, which have been particularly useful recently.

"Earlier this year, there was some turmoil in the banking industry," recalls Colleemallay. "In the system, you can quickly drill down into the investments to identify the different lines of the portfolio and identify exposures to anything you may not like."

The system also means treasurers can be proactive in their counterparty risk management by inputting rules to govern how much cash is deposited in specific funds. Rochedy remarks: "We can define limits in terms of the approvals and apply ratios regarding country risk, counterparty risk and similar measures. This is a useful risk management tool."

Adaptability through automation

In these volatile economic times, having an automated short-term investment process helps treasurers have visibility over their cash and the funds they are invested in, and offers controls to help navigate the uncertainty safely – and always with an eye on the upside.

Colleemallay concludes: "This type of economic situation is where a tool like Cachematrix™ is very interesting for treasurers because it gives us the capacity to choose where we want to invest, based on up-to-date information. We can also look at how different products adapt to the economic volatility – which is critical for liquidity and risk management."

OVERCOMING OBSTACLES TO FRICTIONLESS PAYMENTS

The pace of innovation in payments continues to pick up. Invisible and instant payments processes are becoming the gold standard – and treasurers must play their part in adjusting to the new normal. At the same time, fraud concerns are growing, but developments such as payee pre-validation, as well as greater use of APIs and artificial intelligence, are providing hope.

Payments are the lifeblood of corporate treasury, with cash being sent out to pay for goods and services used by the organisation and flooding back into the firm from customers and clients.

To make liquidity planning as efficient as possible, treasurers want frictionless payments that run smoothly. This requires the lifecycle of a payment to be fluid, error free and accurate, enabling corporates to focus on what matters – selling and buying. The full value chain needs to be considered, with areas to address including reconciliation to identify the payor as quickly as possible, secured payment validations, predictability of beneficiary credit, and handling complex currencies. This is a challenge today, however, as corporates of all sizes – particularly those lacking sophistication of IT solution automation – still suffer areas of friction in their payments processes.

François Masquelier, Chair, the European Association of Corporate Treasurers (EACT) comments: "Given the increasing risk of fraud and errors from manual processes, corporates are focused on making payments more efficient and secure. The key is the guarantee that the beneficiary receives the payments, including confirmation or potential access to confirmation when needed, that the requested value date has been applied – not to mention the removal and avoidance of deductions or cost frictions."

Corporates see many benefits of frictionless payments, primarily the speed of the payment itself and related processes, such as the payment being transferred and credited on the counterparty account. Other advantages include faster cashing and booking to improve working capital needs as measured by the cash conversion cycle, and security or internal controls to ensure funds are transferred to the correct bank account belonging to the beneficiary.

Seeking harmony and alignment

One of the most critical aspects of identifying friction factors in payments is to take a holistic view of the end-to-end payment process, which includes treasury but also takes in other processes, including invoice to pay and order to cash. Taking this approach underlines the need to consider that the payment process actually starts much earlier.

Christian Mnich, Vice President, Head of Solution Management, Treasury and Working Capital Management, SAP, notes: "From an invoice-to-pay perspective, the payment process is initiated when an invoice is posted. Ideally, processes are being harmonised along those lines, being tightly integrated between shared services centres and the treasury back-office departments to ensure that workflows are aligned and that everybody gets their required information. Then there should be a seamless handover between those departments to ensure that the data is being processed and harmonised so that everybody has the right access to information."

Corporates are focused on making payments more efficient and secure.

Once treasury touches those payment-related workflows, it also needs to see the underlying data that the function will approve or needs to process – which bank accounts are being used, which payment method is the most efficient – before it is handed over to the bank. As soon as the payment gets to the bank, connectivity becomes the keyword. This is achieved by improving the communication channels between the two parties, trying to harmonise and streamline through centralised data and, as a corporate, ensuring that a pipe is established to the bank partner that provides the end-to-end view.

Finally, the bank statement confirms the payment. Then the focus falls on reconciliation – another area that benefits from being frictionless – because if the back-end system cannot reconcile the payment, it creates new challenges for corporates. As such, the process requires a harmonised effort between invoice-to-pay, order-to-cash, and treasury.

The role of pre-validation

Frictionless payments remove concerns over payment execution and enables treasurers to focus instead on their customers and suppliers,

and better understand when payments will be made or collected. This means considering the inherent complexity of in-country regulations, currencies, and other options that define specific transactions. Payment pre-validation – a popular concept in the retail world and for individual payments – is a strategy that can enable treasury to be confident that transactions will be successful.

Bruno Mellado, Global Head of Payments and Receivables, BNP Paribas, says there are three key principles to pre-validation that must be followed.

"First, pre-validation means ensuring treasurers know that their payments will succeed upfront because they have carried out the necessary checks and tasks to send them. Second, corporates should choose the best path to settle for their customer or supplier. That requires orchestrating the optimal options available in the market to credit or be credited, increasing the chances for that transaction to go through. Third, treasurers should ensure they build those payment steps not just when treasury executes or receives payments but much earlier when collecting. Treasury can introduce the payment process for their customers. At the same time, when paying suppliers, treasurers are integrating the process of payments to their supplier to obtain the data to build the best payment option, one that is secured, fast and cheap."

These three steps towards treasury payment pre-validation will require work from multiple parties to become a successful reality. Of course, corporate treasurers are a crucial part of this equation. However, pre-validation will also require the participation of other critical stakeholders, such as corporate clients and suppliers, TMS and ERP vendors, banks and advisers to implement it.

Call for API standardisation

One of the most valuable technology tools to support frictionless payments is the API, a communication channel that can simplify integration between different technologies and systems. In an ideal world, they streamline the exchange of data. For example, an API for pre-validation enables any recipient's IBAN to be pre-validated. A treasurer could have a system where they generate a request using this API and receive confirmation that the IBAN in question exists and belongs to the intended beneficiary. This ensures that once the payment is initiated, it can reach the recipient without issue.

Elsewhere, Mnich says, there is a huge demand for instant cash balances, in which treasurers can update their balances per bank account and bank partner via API. "This offers great value for corporates that are managing global cash pools and require information in real-time. Ideally, that information is not isolated to treasury but fed into the relevant accounting, invoice-to-pay, and invoice-to-cash processes as well. APIs will simplify the way we communicate between systems and providers."

But it is not all plain sailing today, as APIs are not yet fully standardised. There are many dialects and variations regarding how APIs are used and consumed, which can hinder data exchange. If APIs were properly standardised, corporates could consume a wide array of real-time data to enhance treasury processes. Many in financial services see value in SWIFT driving API standardisation.

Mellado comments: “A lack of standardisation creates additional layers of complexity for corporates trying to centralise APIs. SWIFT is one way forward on this topic – it cannot be the only one, but it is a forum where the 4,500 banking entities worldwide can discuss how an API can be as universal as possible. My vision is to develop more of those standard APIs that allow for specific purposes, such as the return of funds, for example.”

Return of funds is an interesting case because the entity initiating the return of funds is not the bank’s customer but rather the end customer – in other words, the customer’s customer. In contrast, the party that might want to call for the return of funds is the customer of the bank. This means the API must serve every link in the transaction chain in order for the process to be seamless.

Mellado continues: “ERP vendors may have to consider that there are universal APIs and also some high-end APIs for specific purposes. This will call for action by banks that want to serve the most sophisticated corporates and use cases to invest in those standards. One bank may want to create a perfect, beautiful API, but if it helps only their customers, it’s unlikely to be a success. This is a community topic and use cases will drive it.”

While the standardisation question is yet to be fully answered, treasurers are fully engaged with the API debate. Looking at the technological innovation aspect of the 2023 EACT survey, APIs ranked as the second highest priority for treasurers in the coming 12 months, behind data analytics.

Adding AI to structured data

While APIs offer enhanced integration to support frictionless payments, technologies such as AI and ML can usher in a new level of automation for treasury payments. To best take advantage of these intelligent technologies, however, treasurers must ensure their data is in the best state possible, as tools such as AI rely on data. This could mean looking at how to centralise data better and considering how current processes and system landscapes could be enhanced.

Mnich advises: “The more data available, the better the result might be. With that in mind, it might be useful for treasurers to think about actions such as centralising cash management processes, having many payment automation capabilities, and considering a payment factory, for example. This is where they would consolidate all data into one centralised system, enabling them to benefit from the technologies.”

Centralised data boosts the efficacy of technology. One example of this is when a payment factory receives information from underlying systems or subsidiaries that is not ready to be sent to the bank. With technology, it is possible to enrich that data, ensuring that the payment message sent to the bank is ready to be used seamlessly.

My vision is to develop more of those standard APIs that allow for specific purposes.

Regarding value-based use cases in the treasury department, the inbound payment rails are prime candidates for AI enhancements. With cash reconciliation, for example, algorithms can help match an incoming cash flow to the underlying business transaction. This can then result in other use cases, as optimising reconciliation can enable treasurers to optimise how they incorporate the collections into their systems.

Having the collections data in the system enables treasurers to rely on additional elements, for example, payment behaviour. Once the data points are established for such issues and variances between payment terms and individual payments, they can assist with the next steps of cash flow forecasting and predictive capabilities that leverage that data.

Kevin Braeckman, Director, Treasury Advisory, PwC notes: “There is also a major opportunity for AI regarding fraud prevention. By processing a lot of data, AI can start identifying payments that are out of the ordinary. But it is important to remember that fraud prevention doesn’t simply rely on those technologies because AI and machine learning only comes in when the payment is initiated. It is equally important to make sure that the right level of controls is set up before initiating the payments. This means checking that the bank account is owned by the supplier, ensuring there's enough segregation of duties so that multiple people are involved in making payments, and so on. These 'basic' checks are still critical to avoid payment fraud, then the AI automation comes on top of that."

One example of such a use case comes from the recent partnership between BNP Paribas and fintech SIS ID which created a unique repository shared by more than 15,000 companies to collectively reduce risk exposure. The data of third parties is certified via a private blockchain and made available to SIS ID clients, either via call APIs or by secured website.

Getting ready for ISO 20022

With so much happening in the payments space, treasurers need to focus on the developments that will directly impact their processes. One such evolution is the financial services industry migration to the ISO 20022 payments messaging standard. One of the first countries to change its ISO format locally is Canada, where one impact of the migration has been the additional request for information by banks, ironically creating additional friction.

Mellado says: "ISO 20022 is a major earthquake in the whole payment industry. For corporates, the homework required to get the data right is vital and leaving that right up to the deadline could be a real problem. The deadline when the ISO format will be used for corporate clients is 2025, and it will require that corporates work on their client addresses and data. This work has to start now, not in a couple of years."

ISO 20022 offers benefits not only on the compliance side but also on identifying e-invoices and entities in a POBO or COBO set-up, so the format will enable treasurers to have a more normalised way to manage payments for advanced use cases. A similar conversation is also happening around including a Legal Entity Identifier (LEI) – a unique number to identify a corporate – in payment files.

Braeckman notes: "Including the LEI in payment files would enable banks to identify who their corporate client is paying more easily and to carry out the sanctions screening and KYC around that. So, it's not only about changing the technical format. We expect that upcoming regulation will require additional information in the payment file. Corporates must start thinking about adapting themselves to the newer messages. Even if their bank provides the conversion services, the bank will start requesting increasing information that there's no room for in the current format."

While conversion services for ISO messages could make sense for corporates in the short-term, the direction of travel for the financial services industry as a whole is clear, and there are advantages to doing the work now rather than waiting.

Mnich advises: "It would be sensible to make an effort at the source of the payment processing, otherwise treasurers may find that they are not benefitting from full end-to-end automation. That also includes real-time reporting or validating a payment status within an ERP system. The systems are ready to support that – many European providers have already done the ISO enablement with the advent of the SEPA [Single Euro Payments Area] in 2007 and have continuously enhanced the concept towards a global ISO 20022 CGI format tree."

The other critical development to monitor is the growth of – and use cases for – instant. The success of instant payment schemes relies heavily on having the correct data in place at the right time, which is where developments such as IBAN-name-check APIs – like confirmation-of-payee in the UK – could be vital.

Masquelier concludes: "Corporates need a standard to ensure the account holder of the IBAN to which the money will be transferred is checked – that's absolutely necessary to prevent fraud. For instant payments to succeed in Europe, we need to ensure that we have the IBAN-name check in place and the EACT is lobbying for this to happen. After all, automation is one of the best remedies to mitigate the risk of fraud and human error."

ACHIEVING FULL AUTOMATION OF FX CASH SETTLEMENT

MERCK CASE STUDY

While settlement of FX cash flows at Merck was already highly automated, it still involved numerous manual steps – with which many treasurers will be familiar. Recognising this, Merck's treasury team took the initiative in 2022 to automate all remaining manual processes involved in FX cash settlement.

MERCK CASE STUDY

Merck has a centralised in-house bank dealing with everything related to FX risk, which is managed by corporate treasury. Treasury uses daily FX rates and hedges all its exposures on a daily basis. It covers more than 40 different currencies and handles a substantial volume of more than 10,000 FX transactions annually, resulting in more than 20,000 cash flows. Consequently, settling FX cash flows is one of the department's most crucial processes.

Uwe Reinemer, Director – Head of Treasury Operations, Merck KGaA, explains: "Given the predominantly manual nature of the legacy process, we decided to embark on a complete redesign. This involved streamlining sub-processes such as managing standard settlement instructions [SSIs], payment netting, payment processing, and monitoring. This transformation effectively converted the treasury department from a processing entity into a process steering team."

FX cash settlement is a treasury-specific process that demands stringent security and reliability standards. Unfortunately, many related steps are performed manually at corporates and banks, leading to inefficiencies, instability, and insecurity. Merck's treasury faced similar challenges but proactively addressed these issues by automating four significant components along the process chain in 2022. As a result, it successfully achieved end-to-end automatic FX cash settlement and monitoring.

The four process steps automated in 2022 were:

1. Automatic updates of external SSIs
2. Automatic creation of net settlement amounts and reconciliation with external counterparties
3. Automatic release of payments after successful fraud monitoring
4. Real-time payment tracking via SWIFT gpi for Corporates (g4C)

"This automation, combined with other projects, granted treasury transparency over the daily FX settlement payments," adds Reinemer.

Auto-SSI update

Typically, banks send their SSIs to clients via emails with PDF attachments. However, this process is prone to errors, as emails can be trapped in spam filters. Manual data setup in the system was necessary and each bank employs a different layout for their SSIs with varying mandatory information.

Since banks communicate their SSIs with other banks using the SWIFT message type MT 671, this information can also be utilised by corporates – opening up potential operational efficiencies. As such, Merck used its SWIFT Service Bureau, Finastra Switzerland, to retrieve SSI information from its relationship banks and forward this to treasury. An automatic upload imports the MT 671 messages into the TMS, FIS Quantum, and notifies the treasury team of pending approvals.

"Everything is automatically structured with the correct data, a far cry from the old system of receiving PDFs where each bank would structure its data differently," reflects Reinemer. "It is also significant from a security perspective – the SWIFT network is highly secure and for everything else the team has encrypted channels and files. Hence, treasury is confident that the data that left the bank is exactly what was imported, or vice versa. This change in the process has increased security tremendously."

When the data arrives in the TMS, one team member verifies the new entries with the sending banks and approves them accordingly. Following the completion of the project, the process became reliable, repetitive, secure, and, except for the final approval, fully automated, resulting in a significant step forward in countering cyber fraud.

This transformation effectively converted the treasury department from a processing entity into a process steering team.

Auto settlement matching

FX settlement cash flows can be settled gross with a counterparty or netted. This approach aims to reduce overall counterparty risk and minimise the amount of cash in transit for FX settlement. Previously, the treasury department had a manual process involving telephone or email communication to agree upon the correct settlement amount and identify the payer among counterparties.

After the project's completion, the team can now directly reconcile all outstanding netted FX cash flows with the counterparty using the confirmation matching services by Finastra London. This process ensures a secure payment confirmed by the payee, similar to a direct debit or SEPA Instant (SCT Inst) payment process.

"If any unforeseen issues with the automated process occur, the treasury team receives email notifications from the TMS," confirms Reinemer. "BNP Paribas was the first adopter and implementor of this process and did a lot of the groundwork, which helped enable Merck to become the first corporation worldwide to achieve complete automation of FX settlement reconciliation with its relationship banks. We are extremely proud of this."

Auto payments processing

External confirmation from the counterparty regarding the beneficiary bank account enables treasury to eliminate manual payment releases altogether in terms of FX settlement.

"Of course, there are rigid controls around this new process," comments Reinemer. "The automatic release of FX settlement payments is contingent upon a payment fraud screening process and limit monitoring. Similar to the other process steps, the payment factory system notifies the treasury team via email if there are any unforeseen process issues, payments being stopped due to fraud rules, or surpassing predefined thresholds."

End-to-end payment tracking

While SWIFT gpi is not a novel concept, when it is combined with the process steps mentioned, it enables treasury to monitor each FX settlement through a payment dashboard. Additionally, high-value FX settlement payments are executed within 30 minutes, the real-time status of the payment is visible to the payer, and the team has full transparency over bank fees and FX conversions. Thanks to the speed of these payments, the team can respond promptly to any unforeseen issues that may arise throughout the day.

Treasury is confident that the data that left the bank is exactly what was imported, or vice versa. This change in the process has increased security tremendously.

Reaping the rewards

Overall, the implementation of the treasury auto FX settlement in 2022 has elevated the security level of Merck's operations by automating error-prone processes and manual updates while incorporating the beneficiary bank account into the confirmation process. All of the steps are closely monitored through alert functions or dashboards, and fraud prevention screening prevents suspicious payments.

"The overall reliability of the process has also improved through STP of FX settlements after automatic matching with participating banks," enthuses Reinemer. "In addition, process transparency has been enhanced by enabling end-to-end payment tracking. BNP Paribas' experience with SWIFT gpi and its innovation with the add-ons such as g4C [SWIFT gpi for corporates] and BENEtracker[1] has been invaluable here."

Finally, the efficiency of the treasury department has been amplified, as the team no longer has any manual work to do in this area. The difference between today's fully automated processes and what was undertaken previously is equivalent to one full-time employee (FTE). The department has been effectively transitioned from manual processing to workflow steering, monitoring, and exception handling.

1
BENEtracker is an innovative solution from BNP Paribas that enables international credit transfer issuers to offer their beneficiaries real-time monitoring of their transactions with simplicity and security.

MANAGING BANK RELATIONSHIPS IN TURBULENT TIMES

Counterparty risk has been a critical concern for treasurers this year due to the banking turmoil in the spring. As such, there has never been a better time for corporates to review their existing bank relationships and policies.

Several prominent banks collapsed within a few weeks of each other in early 2023. These included Silicon Valley Bank, Signature Bank and First Republic Bank in the US, as well as Credit Suisse in Europe. For treasurers, this set alarm bells ringing.

François Masquelier, Chair, the European Association of Corporate Treasurers (EACT), reflects: “Whenever we have this kind of situation, it reminds me of 2008 and the global financial crisis. That was when it became clear to corporate treasurers that a bank could default, so counterparty risk was a real issue.”

Comparing crises: 2023 versus 2008

While the most recent bank failures triggered memories of 15 years ago, the events of 2023 were markedly different. For a start, the turmoil was mainly limited to the US – while Credit Suisse did collapse, that risk had been signalled ahead of time as its credit default swaps increased. That was a completely different type of risk to that which faced US regional banks.

Koen De Leus, Chief Economist, BNP Paribas Fortis, explains: “In America, with the rise in interest rates, the valuation of bonds was going down. With depositors starting not to trust certain banks anymore, that created a vicious circle. Many regional US banks were not and are not subject to the Basel III criteria, which is a big difference between them and European banks, which are almost all subject to these stringent criteria around liquidity. Today, all European banks are better capitalised with greater liquidity and solvency, which puts them out of range of the turmoil the regional US banks faced.”

Another critical difference between the banking turmoil of 2023 and 2008 crisis is the source of the issue – a factor that helps explain why this year’s events have been relatively self-contained. In the US, the huge issue was the scale of all the non-performing loans and mortgages that would never be paid back. While that was an accident waiting to happen, it can be argued that this year’s crisis is auto-corrective.

“If interest rates go up, the valuation of bonds goes down, and some banks that are not hedged perfectly will get into trouble,” outlines De Leus. “Should interest rates increase further, we could see some other small banks fail. That’s because there are thousands of banks in the US, so some will always fail if interest rates go up further. But at some point, the Federal Reserve will change course and diminish interest rates. At that moment, bonds will increase in price, correcting the market in a good way.”

This year’s turmoil was a shock for corporates because many use low-rated or non-rated banks. This could be due to a historical reason, because of a specific region or country in which they are operating, or by adding legacy banks through acquisitions.

Masquelier advises: “Any event such as the banking turmoil in H1 2023 represents a good opportunity for treasurers to review and ensure that their processes and policies in place are correct. Check that the audit committee or CFO are ok with your bank partners. It’s also a chance to review the company’s number of banks and accounts – and to reduce these, while also considering the need to satisfy the banks’ demands to ensure they keep providing the services and credit as and when required. Finding that balance is key.”

Best practice when assessing bank relationships

Considering this year’s banking turmoil, it is only to be expected that treasurers have been focusing on counterparty risk and have adapted their cash management profiles accordingly.

Christian Mnich, Vice President, Head of Solution Management, Treasury and Working Capital Management, SAP, reveals: “From multiple RFPs coming in, we have seen that corporates have

Any event such as the banking turmoil in H1 2023 represents a good opportunity for treasurers to review and ensure that their processes and policies in place are correct.

changed their banking strategy, moving more into a global banking presence and distributing the risk a little more broadly."

Assessing the risk, putting the proper limits in place, and having the correct policy is critical. But how treasurers then act upon the information they receive is also essential.

Stéphanie van der Haert, Director, PwC Belgium, recalls: "I was talking to a treasurer earlier in the year who had already experienced several alarm bells over what was happening with Credit Suisse. He had reacted against the creditworthiness of that bank long before it collapsed. Tracking bank performance is important, but the treasurer must also know how they will act upon it to ensure they react on time with the right measures."

The scale of the job to monitor all of the risks within a treasury banking group is not to be underestimated, as these go far beyond the risk assessment of classic overnight deposits with banks.

Masquelier highlights: "The risk could also be with an FX transaction, an OTC [over-the-counter] derivative where, if the treasurer's counterparty is in default, there is a delivery risk because suddenly the hedge disappeared and the treasurer needs to recover the open position. Sometimes treasurers lack the technology to ensure they can capture all the different exposures with their banks and have an idea of the volume of business with the bank."

Understanding how an organisation shares its business with different banking partners is vital, particularly in the current high interest rate environment.

"Many companies will soon face an issue when it comes to renewing credit facilities in the current rate environment," adds Masquelier. "For treasurers, assessing banking partners is about more than counterparty risk. It's also about using the global view of corporate bank relationships to mitigate the risk of an unsatisfied banker."

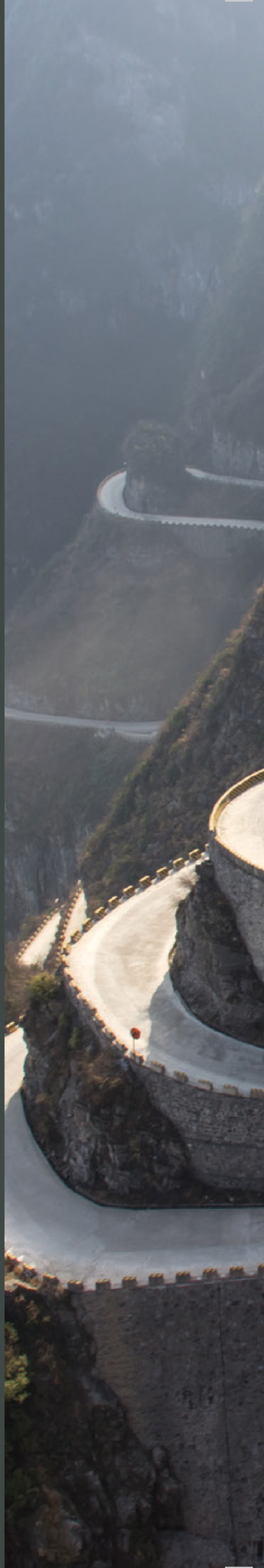
From a technology and best practice point of view, there is also a clear trend towards systems that support multi-bank relationships. This is not purely on the connectivity side but also regarding cash management, payments. Indeed, the entire support that some corporates have used were built on e-banking systems that they had with one specific bank. In situations like this, solid system support is essential.

Mnich adds: "Solid system support starts with a solution that enables treasurers to manage their bank relationships – including counterparty risk, credit rating, wallet sizing, management of the utilisation limits, and an overview of volumes and fees – providing a 360-degree view that helps the treasurer to obtain the insights they need. But clearly, not every corporate has such a system. It's sometimes not that easy, given that some organisations have different use cases and various set-ups from very centralised to a more decentralised treasury. That makes a huge difference."

There are operational and strategic considerations when corporates explore how they manage their bank relationships. The operational element is often related to the major business processes triggering payments, mainly invoice-to-pay (I2P) and order-to-cash (O2C), allowing better controls and visibility regarding the entire lifecycle of a payment, including corporate-to-bank connectivity solutions, as Mnich explains.

"A scalable bank connectivity solution, including gateways such as SWIFT that are bank agnostic, are attractive on the operational side because they help treasurers prepare for the worst-case scenarios and could be used for bridging from one bank to another. These controls can be helpful if the treasury runs a centralised payment factory by consolidating all payments that provides visibility over payments and collections. For example, if the worst case happens, they can possibly stop an outgoing payment. Finally, it's a strategic investment because it will benefit cash management and forecasting visibility."

On the strategic side, having tools with analytical capabilities that monitor the credit rating of the banks the treasurer is dealing with is vital. These can provide early indicators of a change in the standing of the bank counterparty, something increasingly essential as CFOs increase their demands for implementing stress testing. These tools can also provide complete visibility on the



treasurer's wallet sizing, which plays a significant part in the corporate-bank relationship.

Defining the banking group

Having some of the biggest global banks in their portfolio makes sense for treasurers. There is a level of security to be gained from thinking that the largest banks are too big to fail. These banks could also benefit from this year's market turmoil. There are some caveats around this approach, however.

"Global banks will most likely not be able to cover every single requirement that a corporate has in every single country they operate in," notes van der Haert. "To cover all their local requirements, corporates most likely must work with banks outside those big ones. Another point is that, while a €25bn company that's triple-A rated may well have the global banks knocking on their door to work with them, that's not the situation with all corporates."

Depending on a company's footprint, size and financial strength, treasury may have to add regional or local banks to its portfolio. On top of that, there is no guarantee that the geographical coverage of a bank will remain unchanged.

"In the past, we have seen examples where major cash management banks faced certain difficulties that triggered their withdrawal from certain markets," adds van der Haert. "So, while working with global banks makes full sense, it is equally important that treasurers look at the mix and number of banks they need and ensure they reflect on the right strategy and model for their organisation."

Slicing the pie: wallet-sharing

There is obviously a transactional element to the relationship between corporates and their banking partners. Banks need to make enough money from the relationship. That is one reason why an oversized or undersized banking group may be suboptimal. Treasurers need to share the business they give to their banks fairly.

Masquelier posits: "Treasurers need to be smart in sharing their business to ensure everyone is satisfied. Remember that onboarding a new bank account can take at least three months' work. It's vital that treasurers carefully consider this before removing existing bank accounts and relationships. Any corporate banking group should have a good mix to ensure all the areas of the business, and all the services and products required, are covered."

We see most corporates adopting a regional bank model, supplemented with local banks to cover specific local requirements.

Approaches to wallet-sharing can depend on the business in which the corporate operates, the number of banks it needs on the financing side and, equally, the number required to cover cash management requirements.

Van der Haert reveals: "We see most corporates adopting a regional bank model, supplemented with local banks to cover specific local requirements. But the resiliency perspective is crucial to embed in the strategy. This assessment will reflect the use cases or types of business for which the treasurer wants a back-up solution in place. It is all about considering the probability that something could happen and the impact this might have, versus the cost in setting up and maintaining a back-up solution."

If treasurers would choose to have a backup for every single bank account in every single country, they would limit the most risk, but obviously this would come at a very high cost. Instead, treasurers must carefully consider the use cases for where a backup is strategically important, such as for the treasury flows, specific payment flows or certain countries. This assessment will impact how many and which types of banks are required.

"It comes back to the question of the optimal number of banks that are needed to cover the requirements and limit the risks while considering the wallet share," adds van der Haert. "Treasury could have two main banks in the region, but none is a good backup for the use case identified. Alternatively, the treasurer might have one regional bank in each region, and they could be the perfect backup of each other. It all depends on the use case and the risk that has to be limited, so that's an essential part of the assessment."

With wallet-sharing, banks generally understand this by looking at the generated profit versus the employed capital. But for corporates, it is a complicated calculation to make. Typically, the minimum that corporates are advised to look at is to assess the wallet and the revenues they can share across their banks and then put that in perspective of the long-term financing they receive from their banks.

"It's important to emphasise how difficult this exercise is," stresses van der Haert. "We meet many corporates that don't know how much they pay their banks in cash management fees, for instance. Foreign currency payments are another example where it is difficult to know the revenues made by banks, as it is often an indirect or hidden cost. The first step for a treasurer is to understand the components of their wallet, the second is to quantify the revenues, and the third is to find out what is most profitable for each of the banking partners. That will differ from one bank to another."

Masquelier agrees: "It's difficult to compare a bank deposit to an OTC derivative, to a credit, to an arrangement of a syndicated loan, to asset management and MMFs. But if a treasurer can piece together that picture, even if it's a bit distorted, it can help the head of treasury and CFO when they meet the bank to at least know what the relationship is."

Automating data collection and analysis

The events of 2023 highlighted how quickly things can change from a counterparty perspective for treasurers. As defaults are highly accelerated in the digital world, treasurers need their risk management processes to be as automated and real-time as possible. Employing a mix of technology solutions is one way to access the maximum data level.

"It all starts with data consolidation," affirms Mnich. "It's critical to have a system that can access data and provide the treasurer with an overview of the financial instruments they're using, their positions, and the relationship with various counterparties."

This system might be a TMS, which will likely already have many data points in place, or it could be a system fully integrated with an ERP. Treasury needs an understanding of the volume and balances the organisation has with its underlying partners to evaluate counterparty risk accurately.

"Having a centralised approach can be helpful, at least from a system perspective, which the group treasury can access and control," adds Mnich. "Accessing multiple systems is very important because, typically, treasury has to collect data from various sources."

In addition to core treasury systems, specific tools – often developed by fintechs – can help shed additional light on the genuine relationship between a corporate and its banking partners.

"Bank account management and eBAM [electronic bank account management] can provide treasury with a comprehensive repository of information," says Masquelier. "There are also some KYC solutions emerging that could be useful, and tools that manage digital signatures automatically. Then there's bank fee analysis – treasurers are often surprised when applying this kind of system because it highlights what was supposed to be charged against the actual bill."

By combining all these tools with the wealth of data available, treasurers can obtain a clear picture of their banking group. This will significantly help manage those relationships and mitigate counterparty risk.

CENTRALISING BANK ACCOUNT MANAGEMENT AND PAYMENTS

ABB CASE STUDY

Faced with managing myriad bank accounts and payment data from 40 ERPs across 100 countries, the treasury team at ABB embarked on a centralisation project that has dramatically improved cash visibility, generating efficiencies and bolstering controls.

Towards the end of 2017, the treasury team at technology multinational ABB began a project that would simplify the way it managed its bank accounts, drive efficiencies in cash management, and ramp up controls around payments.

Oliver Schrüffer, Corporate Treasury Manager, ABB, explains: "We wanted to have a central platform that enabled us to have visibility of all ABB bank accounts and then to track the entire life cycle of a bank account. In addition, when all the bank accounts were in the system, we wanted to design a new process around the life cycles, the requests, and approvals, so that treasury maintains, reviews and activates them."

Visibility over all of ABB's balances was a vital goal of the project. Previously, this had been a somewhat manual exercise that involved collecting all the balances from the bank at month-end. The new project targeted having all account information available on request in one system that is updated daily.

"The quest for visibility over our bank accounts has been good for the company," comments Schrüffer. "We've brought our treasury system landscape and processes into the future. Also, having all the relevant data on one platform makes it available to all stakeholders in a single place. Once the accounts and balances were there, we connected all our ERPs. This created a payment hub, enabling us to route all payments from the source systems. We have a central platform, pushing payments through one standard approval process and sending them on to the bank."

A momentum for change

Since the treasury project at ABB launched, much positive progress has been made. Various business units and other stakeholders have contributed and are seeing the benefits. There is a clarity to having one platform and one process that has helped increase transparency and efficiency within treasury and to all the other stakeholders.

"It was all about change management – at the beginning, there was some resistance, people wondering why we were doing this now and commenting that the existing process was working," reflects Schrüffer. "But the new system and processes have been adopted, and it's working well."

This adoption has represented a shift in the ownership of the banking and payment processes in ABB. Before 2018, much of the control resided in the individual country business units, as Schrüffer recalls.

"The in-country business used to have ownership of all of the processes, organisations, systems and the business," he explains. "Our project represented a change away from this, towards much greater centralisation."

System support is essential to achieve this. The project's goals would not have been met if various systems had been maintained because that would have diluted the efficiency.

"The key is to have centralised platforms and standard processes, as that enables a business to centralise the activities," enthuses Schrüffer. "ABB's legacy is that of a conglomerate, growing through acquisitions, and there have been spin-offs and some divestments as well."

Indeed, since the treasury project began, a new initiative called the Finance Transformation Programme has been launched within the overall ABB organisation, which shares some similar themes to the centralisation and automation project that Schrüffer and his team have been working on.

Cash is corporate

The drive to centralise treasury banking and payments processes has significantly impacted ABB's cash management processes and efficiencies.

"For us, cash is king, but also cash is corporate," underlines Schrüffer. "Of course, the business is generating the cash flows, but in the end, the cash is with corporate, so we need to manage it efficiently. This project has been about promoting cash visibility and then adding controls around that as we need to mitigate the risk. We need secure and integrated systems and processes to mitigate fraud."

At the beginning of the project, ABB was running around 40 different SAP ERPs globally, hosting operations in more than 100 countries. Today, that number is a little lower, but the most important factor is that all relevant treasury data flows directly into the treasury platform from the ERPs.

We've brought our treasury system landscape and processes into the future.

"We have connected around 32 ERPs to our central platform," adds Schrüffer. "That means whenever a business unit anywhere in the world makes a payment, it goes via our central platform. We control these payments, and there's a standard approval process. It also enables us to process payroll payments – this always used to be tricky, but the platform is powerful. It is like a third-party banking platform, but it's central, and we can connect all our banks and payment sources."

The net impact of this systems integration is that it has enabled ABB to centralise all treasury operational activities significantly. The central treasury platform is used by centralised regional operational teams to work more efficiently on liquidity management tasks using standard processes.

"The system does most of the work," explains Schrüffer. "Having this one platform means we have immediate access to our bank accounts and payment information, and indeed everyone that needs to make a payment has the same access."

The fact that ABB's banking partners are also connected to the multi-bank platform means that the days of using various banking portals are over. However, treasury has decided not to ditch proprietary banking technology completely.

"We still have banking portals there as a backup in case of an emergency," reveals Schrüffer. "We've been able to remove all of the localised solutions we'd used, which always required some specific knowledge. Everything with the new platform is well documented, which is the key to being more efficient."

Taking control

ABB's treasury platform also has a standard workflow approval process, which adds a necessary layer of control over the increased efficiencies and automation.

"We were focused on how we could get all of our data processes locked down because this is extremely sensitive and important information," says Schrüffer. "As such, we implemented very secure connectivity channels, and once the data is in our central platform, it is set up so that no one can change it. It's collected and stored but can't be altered. There's an approval process on top of that, which acts as a reconfirmation."

The tools in place to monitor cash flow and payments have offered some great functionalities to the ABB treasury team, as Schrüffer highlights.

We wanted to have a central platform that enabled us to have visibility of all ABB bank accounts and then to track the entire life cycle of a bank account.

"The system supports duplicate check controls, which will show us if we received a payment file before or whether a manual payment had already been made, for example. In the past, we could only really discover these issues in hindsight – we used some tools to scan to see if we had paid something twice after the event. Now that the check is made before it goes out, the system will notify us that we already made that exact payment and ask if we really want to send the new one."

It does not matter whether a duplicate payment is the result of a mistake or potentially fraud-related, treasury gets to see everything on one platform. This makes the whole process far easier to control. While that does not mean everything is completely secure, treasury knows which users can access the system. Risk has also been reduced thanks to the new streamlined process, which means that staff no longer have the authorisation to make payments directly through the banks.

"There is still some work ahead of us, but one day, I would like to see everything go through the central treasury system," concludes Schrüffer. "We are always looking at what else we can improve, but this has been a big step forward in the right direction."

MEDIAHUIS CASE STUDY

BRINGING IT ALL BACK HOME

FREEING TRAPPED CASH WITH MULTI-ENTITY CASH POOLING

Faced with a decentralised treasury structure and local entities holding on to surplus cash, the treasury and finance team at media giant Mediahuis engaged BNP Paribas to implement a zero-balancing cash pool.

Formed in 2014, Mediahuis is a European media group with businesses and activities in the Netherlands, Ireland, Germany, Luxembourg, and Belgium. In 2022, Mediahuis realised a consolidated turnover of €1.2bn, with €200m recurring earnings before interest, taxes, depreciation, and amortisation (EBITDA). Over the past decade, the group has acquired several additional companies. One side effect of this growth has been the emergence of a decentralised treasury organisation.

Assessing the goal

Kristiaan De Beukelaer, CFO, Mediahuis, comments: "We always try to ensure that all excess cash from the local operations flows to the holding company. This is easy when our treasurer manages the day-to-day tasks for the local operations in Belgium, but more challenging with some of the other countries."

Following a new acquisition, the company's operating model is to leave a certain level of local governance in place in the new entity. This requires formal agreement as to how to upstream excess cash to the group treasury. Somewhat understandably, local finance directors try to retain a certain level of cash locally as a buffer. With hundreds of accounts divided among different banks, the cash trapped within the various legal entities quickly escalated.

"I looked at our monthly balance sheet, and we had around €50m to €60m in cash spread throughout the group across various bank accounts," De Beukelaer reveals.

To tackle this challenge, the treasury team at Mediahuis embarked on an ambitious project to free that trapped cash and manage it centrally. The ultimate goal of this project was to create a multi-entity, multi-currency cash pool to free the funds, where all manual processes were completely digitised.

Getting to work

The first step in the project was to open more than 60 new bank accounts with BNP Paribas across Belgium, the Netherlands, Luxembourg, Ireland, the UK, and Germany.

"We selected BNP Paribas as we wanted a bank that could offer resident accounts not only in the countries we currently operate in but also with operations in most European Union countries to support our growth ambitions," explains De Beukelaer.

I looked at our monthly balance sheet, and we had around €50m to €60m in cash spread throughout the group across various bank accounts.

Opening 60 new bank accounts is no quick and easy feat due to the associated KYC requirements. To make the process as smooth as possible, Mediahuis used the Welcome digital platform from BNP Paribas to ease the account opening and KYC processes, avoiding an excess of paper.

"When we had gone through the KYC and opened the BNP Paribas bank accounts with our local entities, we onboarded our processes in a two-step approach, starting with direct debits," outlines De Beukelaer. "From a 'cash in' perspective, this is the largest part of our business."

Indeed, the project has seen the centralisation of more than 10 million direct debits within BNP Paribas. Considering the decentralised structure of the Mediahuis treasury and finance operations, the group integrated a wide range of the bank's e-channel products and tailor-made solutions into their day-to-day operation.

"Then we included all outgoing payments to suppliers and our employees, followed by the final phase of gradually onboarding all other revenue," continues De Beukelaer. "That final part is possibly the most elaborate exercise – these are advertising customers, and changing bank accounts for many customers is always very intensive. But at this point, we have already completed that with two of our seven entities, so all cash transactions will eventually be held directly in the BNP Paribas accounts."

From a group perspective, a zero-balancing cash pool was set up, with one master account in Belgium. Every night, all outstanding amounts are settled to the master account, so there is a zero balance on all accounts in the morning.

"Related to the zero-balancing cash pool, we have a credit line with BNP Paribas in the form of an overnight facility to ensure we always have available liquidity to pay suppliers or employees," explains De Beukelaer. "This has the potential to expand in line with the growth of our group. Looking at the total cash turnarounds, today we have a €60m line that we use exclusively for our day-to-day operations. That is completely outside the structural financing of our growth or our operations."

During the project implementation, Mediahuis was onboarded to INQUIRO – a web-based BNP Paribas app for payments compliance queries that facilitates secure and rapid communication between the bank and Mediahuis. This has ensured that questions regarding payments and collections are tackled swiftly.

From the bank's side, the project was closely monitored by the BNP Paribas implementation team. Working with a strict ISO-certified methodology meant the implementation was smooth and efficient.

Optimising group-wide cash management

With business entities being added, Mediahuis went live with the cash pool in October 2022. Even as the project continues, the benefits of the brand-new structure are evident.

"We always net the cash on individual accounts with what we have in our credit line related to the cash flow, and I see that the net is declining quite rapidly," enthuses De Beukelaer. "The fact this is already visible underlines that we are succeeding in optimising our balance sheet and working capital."

The benefits have also been felt on the funding side. "We work with an RCF, and the new set-up has certainly helped us in stretching that and being able to make some acquisitions without the need to go back to the banks as quickly as we did previously," De Beukelaer adds.

The centralisation that Mediahuis has achieved due to this project has delivered several efficiencies. Balances are now available within the same value date, reducing the use of overdraft facilities. Centralising all SEPA Direct Debits and SEPA Credit Transfers with BNP Paribas has afforded Mediahuis best-in-class pricing. At the same time, the move to centralise all cash within one bank provides the company with excellent grounds for negotiating first-rate credit renumeration and debit interest.

In terms of the next steps, the goal is to have one bank account per legal entity so that, eventually, Mediahuis can rationalise the number of accounts. But the progress made to this point is already providing peace of mind.

"I no longer have to worry about €40m or €50m floating around the group that I could use but can't get my hands on," concludes De Beukelaer. "This enables me to focus on much longer-term strategic projects and M&A – which is where treasury can add even more value to the business."

We work with an RCF, and the new set-up has certainly helped us in stretching that and being able to make some acquisitions without the need to go back to the banks as quickly as we did previously.

CELEBRATING TREASURY'S BROADER VALUE TO THE ORGANISATION

The role of the treasurer has evolved significantly over the past decade, specifically concerning how interconnected the function is with other departments across the organisation, adding strategic value and leadership to many business processes. The heightened economic turmoil of 2023 has underlined the importance of treasury to the overall wellbeing of the business.

The past year has presented corporate treasurers with several fast-evolving challenges to manage, with interest rates and inflation hitting generational peaks and triggering volatility in FX markets. At the same time, several US banks as well as Credit Suisse in Europe succumbed to market turmoil.

François Masquelier, Chair of the European Association of Corporate Treasurers (EACT), reflects: "It's been a fascinating period as treasurers have had to manage various different challenges simultaneously. After any crisis, we always have an opportunity to refocus and to remind the rest of the finance team, and those at C-level, of the importance of treasury."

A prime example of where treasury organisations have played a significant strategic role is providing visibility on corporate cash, despite the volatile and uncertain world.

Didier Vandenhaute, Partner, PwC, comments: "Some treasuries have significantly invested into predictive analysis for cash flow forecasts. They can understand the key drivers that impact the cash flows and can make deep simulations, such as scenario analysis, and then take the necessary actions to prevent emergency scenarios – or at least lessen the impact of them."

As with any challenging times, liquidity has become significantly more critical for corporates in the past year, as issues such as access to credit and increased counterparty risk have escalated.

Géraud Billaudel, Head of International Business Development, BNP Paribas Factoring, reveals: "Most of our corporate clients have been trying to make the best they can from their receivables and all the cash tied up in the balance sheet. That has been quite significant, particularly in 2022, when government subsidies started to slow down, combined with rising inflation. This has had a massive positive effect on the factoring business all over Europe. We've seen around a 20% increase in volumes in this market,[1] which is huge."

It's been a fascinating period as treasurers have had to manage various different challenges simultaneously.

Supporting different business functions

A crucial aspect of the awareness around liquidity is that more collaboration within the organisation is needed to support working capital management. Treasury often collaborates with some of the other core finance functions. These include accounting to ensure that the treasury operations are properly accounted, particularly financial planning and accounting (FP&A). Tax is another function that is closely interlinked with treasury.

Vandenhaute remarks: "If treasury puts in place a new liquidity structure and needs to access cash in very complex territories from a cash extraction perspective, the team needs to talk to the tax department. The set-up of an in-house bank or on-behalf-of structure for payments and collections also relies on a very close relationship with tax."

Looking a little wider, treasury may also have a role in managing an organisation's pension fund or even be directly in charge of this responsibility.

"The results of PwC's 2023 Global Treasury Survey suggest that the bigger the corporate, the more likely treasury is to manage the pension fund," Vandenhaute highlights. "For corporates with €10bn or more in turnover, 50% have treasury managing the pension fund. Whereas for those with less than €1bn, that number drops less than 10%. Size does matter when it comes to treasury managing pension funds."

Elsewhere, only a minority of treasury functions oversee enterprise-wide risk management. Indeed, the PwC survey shows the opposite trend compared with pension funds. The smaller the corporate, the more likely that treasury will have to be in the driving seat. Larger organisations will have a dedicated team in charge of enterprise-wide risk management.

Masquelier comments: "When corporates look at potential people to manage enterprise risk management or to be the chief risk officer, the treasurer is normally the first person thought of

1 https://fci.nl/en/news/euf-press-release-year-spectacular-growth-factoring-turnover-1h-2022-statistics

because they have the experience of managing and mitigating financial risk. I see many synergies between the two roles. Despite this, a couple of years ago, EACT analysis found that fewer than one-fifth of treasurers were involved in enterprise risk management. It is the same with BCP [business continuity planning], something that is far more vital in treasury than, say, in accounting, because treasury cannot wait."

The corporate value chain has also come to rely on treasury know-how in recent years on both the supplier and sales sides.

Billaudel notes: "Regarding supply chain management, treasury has been helping supply teams to support suppliers. We have seen quite some demand in this area. Then, on the opposite side, treasurers have had a role in the critical trend of corporates establishing their online sales presence. This requires new payment methods and also new ways of financing, which is fascinating."

The development of buy now, pay later (BNPL) for B2B is a prime example of how the treasurer can support the sales organisation in the shift to the direct-to customer (not necessarily consumer) business model. Business customers, just like individual shoppers, can appreciate the convenience of deferred payments, so B2B BNPL can lead to an increased conversion rate. B2B BNPL could also serve as a USP, potentially giving the company offering it a head start on their competition.

We're talking to corporates about instant decisioning, instant payments, and instant financing.

In addition, by onboarding new payment methods, such as instant payments and embedded payments, treasury can help the business sell more. This style of partnering with other business areas will open doors to value creation for the treasury department and beyond.

Technology-led change

The shift to online B2B sales has driven a massive demand from corporates for new solutions that are very different from a technology perspective. "We're talking to corporates about instant decisioning, instant payments, and instant financing," comments Billaudel. "It is critical for us to accompany corporates on this move to online sales."

Indeed, many of the benefits treasury can provide to other business areas are underpinned by technology and the data that flows through these treasury systems. With working capital management, technology is a critical enabler in providing the required level of information to the treasurer.

Christian Mnich, Vice President, Head of Solution Management, Treasury and Working Capital Management, SAP, underlines this point: "Treasurers have to look into cash and liquidity, receivables management, accounts payable, and inventory. Thinking about those elements, the data is not necessarily in one system. Treasurers need to think about how to get the data into an environment where they can deal with it, such as through a working capital management dashboard that enables them to get the most important KPIs to measure, steer, and optimise working capital."

Having the proper access points to get this information is critical. This requires good collaboration with the stakeholders, who also need to understand that the relevant data has to be shared. Typically, this needs treasurers to deal with counterparties, such as the head of finance operations or head of shared service centres (SSCs), to gain a full appreciation of working capital management.

Process focus: invoice-to-cash

There are specific business processes that rely on the expertise and skill of the treasury department and touch other segments of the business. One of these is the invoice-to-cash (I2C) process, which typically starts with the credit check of a potential buyer. The treasurer should be part of the process from this first step to minimise the credit risk. From there, the process moves to invoicing the customer and managing the open receivables.

"When it comes to managing the open receivables, it's key to discuss integration capabilities," enthuses Mnich. "Integration with the banks is key. Treasury needs access to the bank statements that are getting into the system, and not just from a cash management point of view. It also includes a strong collaboration with the accounts receivable department to understand whether the customer has paid in time to evaluate their payment behaviour."

With the I2C process, treasurers will look to collaborate with either the head of finance operations or the head of the SSC. Often there are compelling reasons for these functions to be looking in treasury's direction as well.

"While SSCs were most likely focusing on automation as much as possible in recent years, they understood and have also received guidance from senior management to be more collaborative when it comes to engagement with the treasury department," explains Mnich. "This allows the right level of information to be shared to enhance working capital management."

The I2C process is essential to understand, particularly on the incoming side, and there is an opportunity to gain more transparency over this process to avoid unexpected incoming cash flows.

Masquelier states: "It's a great opportunity to demonstrate the value that treasury can bring to the operation, and others in the business will be open to collaborating. By accelerating the I2C process, treasurers can free some credit facilities with customers and accelerate the associated cash flow cycle to bring significant value to the company."

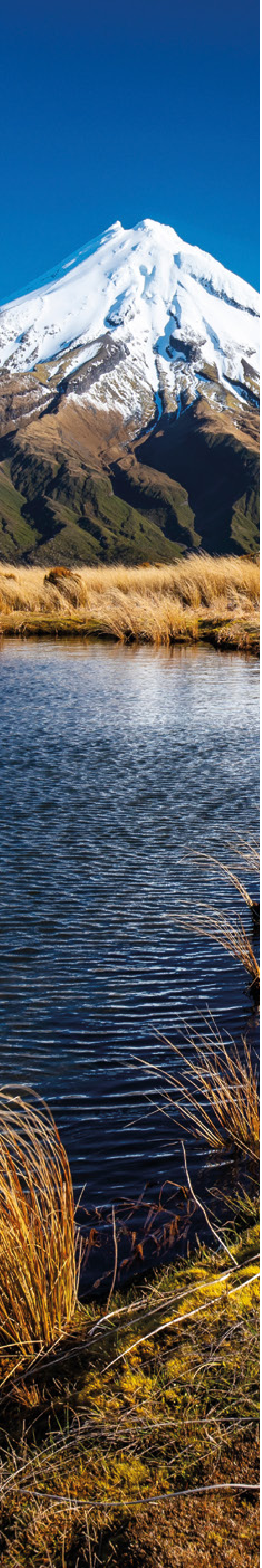
An interesting point here is that treasury is at the end of the I2C process chain. While treasury is the function that will be impacted by the cash being received or not and the department that will have to execute the payments at the end, many decisions taken before receiving the cash or paying money out will affect treasury, particularly with cash flow forecasting.

Vandenhaute elaborates: "These impacts could be around extending payment terms, which would affect cash flow. It could be around accepting cheques, which can cause a delay. Discounts are another example – if an extra 3% flat discount has been provided to the customer, that is a significant amount of money. The treasurer has a role to play in ensuring the other stakeholders understand the consequences of their choices on the company's cash flow."

Process focus: procure to pay

When it comes to the procure-to-pay (P2P) process, there are several steps that treasurers can take to optimise payment execution at the end of the chain. These can include the automated creation of a payment file based on an approved invoice, automating and encrypting the transmission of the payment message to the system for processing, and ensuring that no manual intervention is required to get the payment file to the bank.

"Treasury has a major role to play regarding exception management or urgent payments in trying to avoid manual payments at all costs," urges Vandenhaute. "If manual payments have



to be made, they must be complemented with strong supporting evidence and documentation to pass approval. Treasury also must make the right checks and ensure that validations are in place to mitigate against sanctions violations and fraud risks."

Today, it is common for corporates to have a payment factory in place. PwC's 2023 Global Treasury Survey shows that 55% of corporates with more than €10bn in consolidated sales have a payment factory. For corporates in the €1bn-10bn range, 48% have one, as do 34% of those in the bracket of less than €1bn.

"In every size group, this result is up by around 10% compared with the survey from two years ago, which is significant," adds Vandenhaute. "This underlines that control, visibility, and automation have been a key focus following the Covid-19 crisis."

Of course, what is not under treasury control are the steps before it gets to the release of the payments. That includes vendor creation, contracting, purchase order processing, and invoicing.

"The vital role that the treasury organisation can play in procure to pay is as the facilitator and by explaining the impact of an incorrect set-up or bad behaviour on the payment execution at the end of the process," Vandenhaute says.

The treasurer has a role to play in ensuring the other stakeholders understand the consequences of their choices.

One element that is a little different compared with the I2C process is that the collaboration between treasury and P2P stakeholders generally starts earlier. That is because there has been a strong focus on payment operations over the past couple of years regarding payment processing and the alignment of processes.

Mnich explains: "It's fair to say that invoices are approved in the accounts payable department, but how an invoice is paid, or the consideration of payables financing, starts with a powerful collaboration with treasury. If treasury has a programme to pay dedicated suppliers, for example, that needs to be aligned with accounts payable because they will have a major impact on selecting the right payment method."

System integration has also become more critical. This is particularly the case if the corporate runs a fully-fledged ERP system, as there are advantages in putting payment management on top of the payment operations. Typically, in this case, all the invoices are processed through the ERP system, and it then makes sense to have that layer of an integrated payment factory to streamline the payment processes.

"Once again, integration with the banks is key here because treasury needs that end-to-end view," emphasises Mnich. "Releasing the payment and transmitting it to the bank is one aspect but just as important is receiving a status message and being certain that the payment is being processed.

This goes back to the accounts payable department, as they might receive calls from suppliers expecting their payment and asking for the status. Then there are topics such as CGI [Common Global Implementation] and enhanced status reporting, while API usage has also increased treasury's value to the business."

Process focus: supply chain finance

Elsewhere, supply chain finance (SCF) can be a rewarding solution to improve liquidity. The corporate is able to extend the payment term while the supplier gains access to cheaper financing. But implementation can be quite complex, a factor that can be underestimated, while the time frame to implement and onboard suppliers can cause a longer lead time for the benefits to filter through. Treasury can provide critical insights into the set-up of such a programme, but it should not do so alone.

Vandenhaute outlines: "Procurement has to be fully involved and committed to the SCF process. I see too many cases where the programmes have started with a set of goals, and when they evaluate where they are after three or six months, the results for the onboarding process or targets have been much lower than expected. Before starting such a programme, treasurers must clearly assess which suppliers are likely to embark on it. They also need to assess potential delays that slow the accounts payable processes. There is also the risk of trade payables being reclassified as bank loans, depending on how the programme was set up."

This risk analysis relies on data and insights from treasury and other stakeholders across the organisation that touch on the SCF process. Successfully structuring this interaction between functions can bring benefits to this specific process and also to the organisation's broader corporate culture.

Billaudel explains: "SCF involves many different departments within the organisation, from procurement to accounting, so this is a good way to break the silos and work across the different departments of the organisation. We've seen some corporate clients using the setting up of an SCF programme to rethink their entire business processes."

On the technology side, integration is once again critical for SCF , in this case, with the SCF provider, either a bank or a platform provider. The good news is that it is easier to set up an SCF programme with the proliferation of APIs and more embedded processes that tie into ERP-related offerings.

Mnich notes: "With platform providers in particular, there's good collaboration possible where treasury can share data from the ERP to the platform, but the same could also apply for banks with the right capabilities to connect to underlying systems and get the data to offer those services. There's more to come for corporate treasurers in the future where they can benefit from the collaboration of the technology and their financial services providers."

The importance of treasury to various business functions across the organisation has undoubtedly grown in the past 10 years, a point that the recent economic volatility has underlined. If treasurers continue to automate processes and integrate with internal stakeholders and external partners, several benefits await. They can ensure greater efficiencies across the board in cash and risk management, demonstrate a range of value-adding insights to help advance the organisation in dealing with customers and suppliers, and navigate the business through turbulent times – while being well-positioned for brighter periods to come.

There's more to come for corporate treasurers in the future where they can benefit from the collaboration of the technology and their financial services providers.

UNLEASHING THE POWER OF AI ON CASH FLOW FORECASTING

Looking to enhance one of treasury's most crucial processes, Ingka Group has successfully applied AI to its cash flow forecasting. By leveraging advanced algorithms, the company benefits from real-time insights that enhance overall cash management.

In today's volatile financial landscape, cash flow forecasting has again emerged as a crucial element for treasurers seeking stability and growth. Traditional cash flow forecasting methods often rely on manual data entry into Excel spreadsheets and significant assumptions, which can lead to errors and inaccuracies.

In response to these challenges, AI-based cash flow forecasting has rapidly gained traction as an alternative. And this is the path that the treasury team at Ingka Group, franchisee of global furnishing powerhouse IKEA, chose to pursue.

Guzman Chavert Posa, Cash & FX Forecast Team Leader, Group Treasury, Ingka Group, reflects that the driver behind adopting AI-based cash flow forecasting was its transformative capabilities. "By harnessing advanced algorithms and machine learning techniques, AI-based systems can analyse historical data, identify patterns, and make predictions with unprecedented precision," Chavert Posa states. "This helps eliminate the errors and inaccuracies that plague traditional methods."

One of the prominent benefits of AI-based forecasting is its ability to provide real-time insights into a company's financial position. The capacity to process vast amounts of real-time data enables businesses to make well-informed decisions and swiftly respond to changing economic situations, thus enhancing their agility in the market.

Moreover, AI algorithms excel in analysing diverse data sources, including historical financial data, market trends, customer behaviour, and economic indicators. "This data-driven decision-making approach," Chavert Posa explains, "empowers businesses to make strategic choices based on actual data, rather than relying on intuition alone."

Beyond its analytical features, AI-based cash flow forecasting offers another significant advantage – reducing manual effort. By automating data entry and calculations, corporates can save precious time and resources while mitigating the risk of human errors.

But the benefits of AI-based forecasting extend beyond mere efficiency gains. Improved cash flow management becomes a reality with more accurate and timely forecasts, for example. "This empowers businesses to optimise investments, manage working capital, and effectively address cash flow challenges," states Chavert Posa. "Ultimately, this leads to improved financial stability and better resource allocation."

AI-based systems can analyse historical data, identify patterns, and make predictions with unprecedented precision.

Indeed, cash flow forecasting has become increasingly relevant and crucial as the backbone of Ingka Group's IHB operations, helping it efficiently manage the organisation's cash, liquidity, and financial risks. The cash flow forecast system was developed in-house, leveraging the organisation's internal resources and expertise.

The best of both worlds

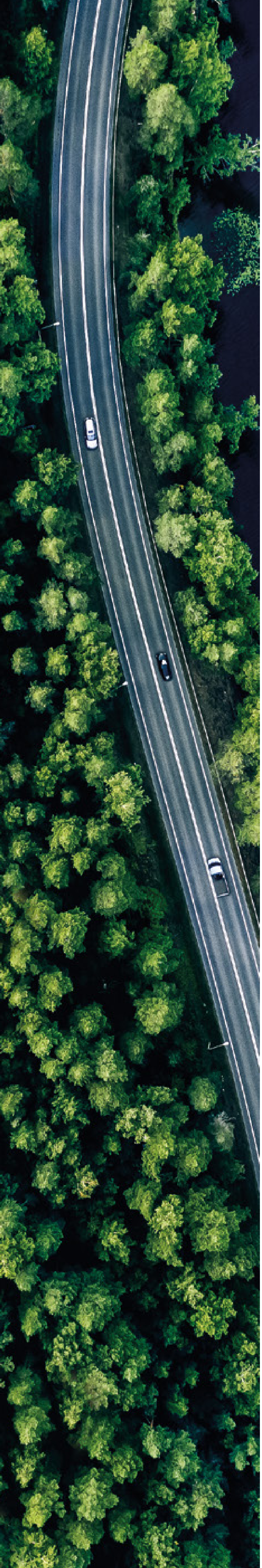
"The project commenced with a comprehensive analysis of our specific cash flow forecasting requirements," explains Chavert Posa. "This included a detailed assessment of historical data, financial trends, and factors influencing cash inflows and outflows. By understanding the unique intricacies of our business operations, we aimed to build a system that catered precisely to our needs."

The result was a cash flow forecast project that progressed from the initial concept stage to launch in less than eight months – and a potent mix of man and machine. "We chose not to apply the AI-based method to all areas of forecasting within our organisation," Chavert Posa reveals. "We believe in a balanced approach that combines the strengths of both human expertise and AI technology."

With the new cash flow forecasting up and running so promptly, Ingka Group is seeing enhanced forecast accuracy, thanks to sophisticated algorithms and ML methodologies that scrutinise past data, recognise trends, and generate predictions with heightened precision. It also offers new levels of adaptability and flexibility.

"AI-based cash flow forecasting models can adapt and learn from new data, making them more flexible in handling changing business environments," elaborates Chavert Posa. "As economic conditions, customer preferences, and market dynamics shift, the AI model can continuously update its predictions, enhancing the accuracy of the forecasts."

The AI-based forecasting models can also perform scenario analysis by simulating various financial



scenarios based on different parameters and assumptions. This capability helps the business assess potential risks, plan for contingencies, and optimise its financial strategies.

Adapting to the new normal

While the benefits of AI-based processes are gaining traction, understanding the main obstacles faced during this project and how the treasury team at Ingka Group navigated them offers even greater insight for treasurers.

One hurdle was market uncertainty and volatility, including factors such as customer payments, supplier invoices, and unexpected events, can impact cash flow and challenge the accuracy of the forecast. Chavert Posa also notes that a lack of data and visibility was another issue confronting the team.

"Accurate cash flow forecasting relies on timely and comprehensive data," he affirms. "However, treasurers may face challenges in obtaining complete and up-to-date data from various sources within the organisation, leading to inaccurate forecasts and frustrations."

Cash flow forecasting involves analysing and interpreting various cash flow drivers, such as operating, investing, and financing cash flows. Understanding the intricacies of these dynamics and their interdependencies can be another challenge that impacts accurate forecasting. This can sometimes be compounded by limited tools and technology available to the treasurer.

To address these obstacles, the team at Ingka Group changed its approach and way of working, adopting new strategies to give the project a sound footing.

"One of the changes we made to improve data management was to build a property model," confirms Chavert Posa. "We ensured that data is accurate, complete, and accessible by implementing robust data management processes and using technology solutions such as cash forecasting software."

The project also implemented sophisticated forecasting techniques such as statistical models, scenario analysis, and Machine Learning (ML) algorithms to improve forecasting accuracy. And in addition to the work on the technology side, the project team also looked at how to enhance interdepartmental relationships to help treasury access all the relevant data the forecast relies upon.

"By promoting effective communication and collaboration between different departments within the organisation, we've obtained the relevant inputs to enhance cash flow forecasting accuracy," enthuses Chavert Posa.

Retain the human touch

The accuracy that leveraging advanced algorithms and ML techniques provides will help treasury to optimise investments, manage working capital, and overcome cash flow challenges, leading to improved financial stability for the organisation.

We've obtained the relevant inputs to enhance cash flow forecasting accuracy.

As dazzling as the benefits of AI can be to a cash flow forecast, however, it is vital not to discount the importance of the treasury and finance professionals that are steering the organisation's cash management.

"Achieving a successful cash flow forecast relies on finding the optimal synergy between AI technology and valuable business insights," concludes Chavert Posa. "Combining the predictive power of AI with human expertise enables accurate predictions, timely decisions, and effective financial planning."

L'OCCITANE CASE STUDY

GIVING FX MANAGEMENT A MAKEOVER THROUGH AUTOMATION

International manufacturer and retailer of premium and sustainable beauty and wellness products, L'OCCITANE Group, partnered with technology firm Kantox to remove manual processes from its FX management. This has created a more efficient and secure process while freeing up treasury to enhance hedging strategies.

L'OCCITANE's treasury team is constantly looking for ways to automate time-consuming manual tasks and drive digitisation – when it brings a clear added value for the group. A recent project to automate the company's FX management is a prime example of this approach.

The standalone endeavour to assess a specific part of the company's FX exposure falls within treasury's global digital framework, thanks to the connectivity of the solution that L'OCCITANE selected – Kantox – with its existing technology stack, including an ERP, TMS, and trading platform. FX automation is now part of the company's daily global treasury management environment.

Unlocking efficiencies via API

At the start of the FX automation project, L'OCCITANE's treasury was clear about what it wanted to accomplish.

Quentin Jarret, Front Office Treasurer, L'OCCITANE Group, explains: "There were three key goals: saving time, increasing reliability, and being able to monitor our FX exposure more closely. We wanted to achieve these advances while preserving control over why we hedge, when we hedge, and the amount we want to hedge."

After selecting Kantox, an API connection was established between the FX platform and L'OCCITANE's ERP (SAP). This enabled treasury to easily and rapidly monitor its exposure across the 15 to 20 currencies it handles on any given day.

"Before implementing the new solution, we had to check the ERP several times a day to see if the exposure had increased or not," recalls Jarret. "This required a great deal of data processing and generated significant operational risk because there was the possibility that some invoices might be missed or double counted. Thanks to the API connection between the two platforms, we can now see our exposures instantly, which is crucial. It's all about reliability and time savings."

Smooth implementation

From L'OCCITANE's very first discussion with Kantox, it took just one year to go live with the solution.

"For our part, the aim was to be live as soon as possible," states Jarret. "As soon as we decided we wanted to go with the Kantox solution, following many months of discussion and debate, it was just over six months until it was live. That is quite fast considering the technical IT implementation required at initiation."

We wanted to achieve these advances while preserving control over why we hedge, when we hedge, and the amount we want to hedge.

Throughout the implementation, L'OCCITANE had one treasury person spearheading the project, alongside involvement from the company's ERP and IT teams. The platform vendor also provided regular support.

"Kantox was always available, there were weekly calls about the project to ensure that the process was proceeding as planned, and they assessed every improvement and every issue throughout," notes Jarret.

The implementation's main challenges were to connect L'OCCITANE's ERP to Kantox and ensuring that the correct data was being gathered, as the company handles several different types of invoices.

"The time between receiving and paying invoices varies depending on the client or what the invoice is for," outlines Jarret. "Some are paid 90 days after invoicing, and others after 120 days, for example. This requires much processing since the payment terms are not standardised across the board. Thankfully, both L'OCCITANE and Kantox were efficient at overcoming this challenge, we worked well together to quickly solve all the pending issues."

Indeed, the two teams held weekly calls to follow up on the improvement and assess specific points that treasury wanted to discuss along the way. Meanwhile, Kantox could draw on the experience gained from various client projects it had already implemented to assist with the ERP connection.

Reaping the rewards

With Kantox now connected to the ERP and automating various FX processes – particularly in the pre-trade phase – L'OCCITANE's treasury is hitting the targets that it set out to achieve.

"We are now saving time that we can dedicate to tasks with much more added value," enthuses Jarret. "At the same time, we can still closely monitor the FX exposure because we defined our own rules for the process. We have access to the Kantox environment to monitor this exposure and decide whether to trade out of our positions or not. This is this real benefit."

Another benefit is treasury's new ability to change its business rules as and when required. Kantox and L'OCCITANE regularly assess the set-up to ensure it complies with the latter's business rules in that the controls are adequate for treasury's needs and the FX exposure.

"Kantox is still always available," remarks Jarret. "If we have an idea for a development we would like or a feature that we think would be good for us in the platform, the team is there to discuss it with us."

Taking a step up

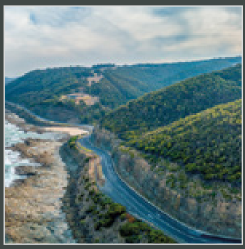
With the automation up and running, L'OCCITANE's treasury team has also had the time to assess its approach to FX management, launching a review of the entire FX process to see where incremental changes might bring even more benefits.

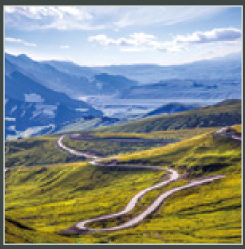
"We have a policy that 80% of our exposure should be hedged every month. The review is looking at whether we should switch to some budget-hedging processes rather than just hedging for hedging's sake," notes Jarret. "Kantox also allows us to reflect on our hedging strategies – to consider using options, for example. We did not use these much before because we had no time, but now we can think more strategically."

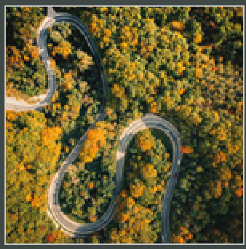
If we have an idea for a development we would like or a feature that we think would be good for us in the platform, the team is there to discuss it with us.

As such, this implementation demonstrates that automation of treasury processes offers far more than simply removing manual tasks from the treasurer's to-do list. It supports strategic thinking and enables treasury to add greater value to the organisation. And in this specific project, the fact that the solution provider is always on call and open to collaboration with the treasury team is vital to a continuing successful partnership.

"It is fair to say that using Kantox's solution led to a significant digitalisation of our FX risk management and considerably eased the process," concludes Jarret. "We always need to ensure that our project partners are reliable and this was the case with Kantox. That is an important takeaway for treasurers considering an implementation such as this."







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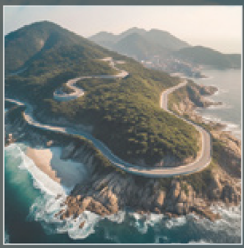
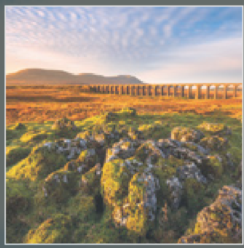
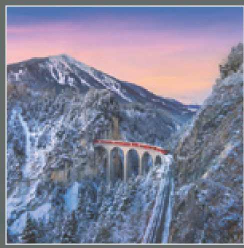


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