# Managing Risk, Managing Change

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Since the liquidity crisis in 2007/8, the role of the Corporate Treasurer has been transformed.

In an era of heightened counterparty risk, low interest rates and tight liquidity and credit, an effective treasurer has become a determining factor in business success, with a more visible and strategic role.

Treasurers are more accountable for the cash positions of their organisations. Chief Financial Officers (CFOs), and increasingly Boards, rely on their insight to help companies make the right decisions at the right times.

The insight that treasurers are now uniquely positioned to share with their CFOs means that this trend is set to become a permanent state of affairs.

The traditional roles of the treasurer still exist. Businesses continue to need effective payments mechanisms, cash flow forecasting and productive relationships with their banks. Areas which have always been the preserve of the corporate treasurer are more sharply in focus in the current climate – assessing a bank's counterparty strength, for example.

Regulation has changed the way that both banks and treasury functions operate, presenting challenges, but also opportunities. Global banks now need to operate to global standards, and ensuring that we provide our customers only with solutions that are entirely suitable for their businesses. This approach allows customers to feel comfortable that the banking environment they operate in is safe, and sound.

This also creates an environment of sustainable growth for banks. For our customers, regulatory changes such as the Single Euro Payments Area (SEPA) give you the opportunity to lower operating costs, increase integration of your systems, in short to benefit from economies of scale.

Meanwhile, new technology automates processes and frees up treasurers' time to provide insight to the CFO and the Board. This automation is combined with the requirement for a closer management of risk, driven by economic conditions and increased globalisation.

Added to this, CapGemini's "World Payments Report 2012" report predicts that global payments volumes will continue to increase by an estimated 5.6% in developed markets and an astounding 18.4% in developing markets.

The result is a rapidly evolving payments landscape that is driving innovation to enhance efficiency and operational reliability, as well as ensure regulatory compliance. This has given many companies the unique opportunity to re-engineer how they manage global cash flows.

With the goal of gaining greater control over domestic and foreign currency payments, the answer for many is to move these processes out of the operating units and into centralised structures that promote efficiency, introduce standardisation and deliver economies of scale. This is what some of us know as "shared service centers".

So why do treasurers and banks need to innovate? It's because treasurers' ability to meet Boards' heightened expectations will increasingly rely on insight. Our discussions in the sessions over the next two days give us a valuable chance to reflect as banks and treasurers.

Treasuries must embrace the new regulatory environment just as much as their banking counterparts as it provides the opportunity to change liquidity structures, driving efficiency and value into the business. It's incumbent on treasurers to stay abreast of the new regulatory, economic and technological environment in which we all – bankers and their customers – operate.

The downside consequences of getting things wrong are clearly the cost of rejected payments, poor liquidity management and reputational damage.

The second trend we see is the clear shift of economic power South and East.

The story of economic power shifting South and East is both well-known and supported by evidence: HSBC anticipates growth rates this year of around 1% for the developed world, around 4.6% for emerging world. But there are some elements less well understood.

Western companies may feel concerned by the rise of South-South trade, but wrong to think it closes the door to them. With today's increasingly disaggregated supply chains, Western companies can plug into the growth of south-south commerce, provided they know where they can add value.

Emerging markets are increasingly consumers and investors as well as producers. Latin America is already a net importer of manufactured goods. We expect a further 3bn people to join the middle class in the next 40 years, most of them in the emerging world. Let me repeat this – another 3bn to join the middle class over the next few decades. And in 2012, emerging economies generated almost one third of global Foreign Direct Investment outflows.

It's not just about China. In fact we have already seen manufacturers shifting lower-value-added processes as China's land and wage costs rise.

So what does all this mean for corporate clients and banks? The changing landscape impacts companies' working capital positions, their payables and receivables, their liquidity position, and their trade finance requirements.

The challenge for corporate treasuries is to extend their corporations' financial supply chains so that they can always provide optimal support for their physical supply chains. In many cases, the new markets concerned will raise unique clearing infrastructure or regulatory issues that add complexity to this process - as well as having ramifications for other areas such as liquidity management.

Entering new markets with a clear picture of this new environment is critical. When venturing into the unknown, treasurers can add real value by raising awareness of different payment conditions, laws and regulations – it's all well and good recognising a need for a product in a new country but without the ability to manage currency and FX issues, or to understand the infrastructure required to make or receive payments in a new market, expansion plans won't easily get off the ground.

Another trend is the rise of ASEAN countries as regional treasury centres. Singapore has established itself as a preferred location for multinationals' regional treasury centres given favourable regulations and tax benefits. For multinational corporations with complex cross-border operations, a regional treasury centre is the preferred option, so they can easily manage their liquidity centrally. Singapore is positioning itself as ASEAN's regional hub for RMB cross-border trade settlement and investment with China. In May 2013, Singapore took another major step to realizing its ambitious goal.

From a bank and customer perspective, the expansion of multinationals from faster growing markets into developed markets, taken in conjunction with the existing domestic needs of European and US clients means that we cannot simply devote all our resources to high growth markets. Both have to ensure that we have resources positioned to be in the optimal geographies for your businesses growth. The geographical diversity of clients' businesses means that holistic solutions are needed that can efficiently link faster growing and mature markets and support global corporate treasury in being precisely that – global.

An ‘open standards’ based connectivity / payments system – think XML, or SWIFT for Corporates - is valuable in the new world. A corporate who wants to connect to a new market can do so easily, quickly and efficiently. Standardised formats ultimately mean shorter implementation time for companies setting up in a new market, accessing new revenue streams more quickly. It means that banks need to offer more added value and this is good for companies too – the value of your cash management provider will be in the quality of insight they offer, as well as in the robustness of their infrastructure and their ability to understand your needs.

The third trend is technology.

Technology has utterly revolutionised consumer banking over the past ten years and it has begun to do the same for the commercial banking, giving bank customers greater visibility of their money, and greater power to direct it as and when they see fit. The presumption that “only retail customers want to bank on their mobile” has proved to be far off the mark.

Banking technology can do two things. It can make your lives easier day-to-day: witness the rise of mobile treasury (our own HSBCnet Mobile platform has around 12,000 customers and to date has been used to authorise c$20bn in payments), and the shift in technology is also helping us to generate greater information and insight, which is where I believe the greatest value can be added.

We think that information will be key. The Treasurer has a unique role, sitting across information flows about the company’s business – much more than just cash positions - that could and should inform the CFO’s decisions. Treasurers who succeed in using technology to collect, marshal and deploy that information can add significant value.

Further, we have seen evidence of the growing desire for companies to move away from bank proprietary solutions and adopt open standards or XML and SwiftNet which highlight the focus Swift has placed on these services.

The two important questions to think about are ‘what information should we and the associations such as Swift facilitate or provide to you, and what should you be doing with it?’

In short, the data your bank provides should help you to make better quality, more intelligent decisions about liquidity management. It should inform you how to better manage your working capital. Of course this is nothing new, but what is new today is the fact that technology makes this much more possible – in large part because of standardisation – and the pace of this technological change is only accelerating.

This opens up the possibility of new collaboration between companies and across all banking partners in a way that hasn’t been possible before. So, while the subject isn’t a new one, the possibilities most definitely are.

We are seeing a trend of treasurers actively seeking dialogue and discussion with us, and the conversation has changed – clients come to us today asking the question ‘we’re opening in a new market, how can we be structured to be successful?’, rather than ‘can you help us make a payment?’ New technology, greater insight mean banks can finally begin to be advisory partners, as well as technology implementers – it’s a rapidly evolving ‘value add’ model.

A fourth trend to consider is operational efficiency.

Market uncertainty has further increased the incentives for treasurers to be innovative in managing their cash flows. The evolution of paper, silo-based treasury functions to a more holistic, centralised and consistent approach is an important step.

More than this, however, treasurers have a key role in helping businesses review their supply chain networks to look for increased efficiencies. Smart corporates consider the benefits and trade-offs of different approaches: globally standard models of customer service, versus customisation; independence of action versus strategic partnerships, collaboration, and sharing services.

The evolution of payments over the last decade combined with significant developments in technology, the regulatory landscape and business environment have all led to new opportunities for companies to drive internal change. Many organisations are finding they can secure the profitability and sustainability of their businesses through an efficient, centralised payments management structure.

According to the "World Payments Report 2012", I mentioned earlier there are currently more than 30 Key Regulatory and Industry Initiatives underway specifically focussed on payments.

While their individual objectives may differ, they are all primarily aimed at standardising processes for greater transparency and enhanced risk management. At the same time, traditionally restricted markets are opening up in an effort to facilitate a truly global economy.

In the case of China, for instance, the country is working toward internationalisation of the Renminbi (RMB) to make it easier for companies inside and out of Mainland China to conduct cross-border business.

In short, standardisation gives us the opportunity to create more intelligent solutions based around treasurers' needs – from payments centralisation, to new, integrated 'packages' of previously separate banking services.

There is no standard response to any of the trends I have outlined. But an understanding of the macroeconomic changes in the world; of globalisation and the economies of scale this brings; of the unrelenting march of technology; and of the increasing importance of the treasurer, is crucial to corporates' ability to position themselves to manage the risks, and seize the opportunities that the future brings.

In the spirit of collaboration we welcome the discussion, and the challenge to the ideas I've outlined this morning.