2015: opportunities and challenges for treasurers

New digital processes are vital to improving scalability and risk management – helping corporates meet 2015's challenges and rise to its opportunities, say *Markus Straußfeld*, head of cash management international sales, and *Alfredo Bresciani*, head of trade finance international sales, UniCredit.

What are corporates' priorities in the coming year?

Straußfeld: After years of weathering poor economies, corporates will be expecting clearer skies in the year ahead. For a start, western economies finally seem to be entering a new period of concerted growth. And emerging markets such as Central and Eastern Europe (CEE) will become easier to access as they come in-line with harmonising regulation, such as that governing the Single European Payments Area (SEPA). Slovenia and Slovakia are already part of SEPA, and Croatia is expected to join soon. Asia is another market where we can see liberalisation. As such, cash pool structures to optimise liquidity positions across countries and continents – once thought unrealistic or even impossible – have become a reality.

Exploiting these trends while remaining competitive will require businesses to look beyond their own borders for growth. According to the World Trade Organisation, developing economies raised their collective share in global output from 39 per cent in 2000 to 52 per cent in 2012 – and expanding trade flows between Europe and emerging markets are a major part of this. For example, China increased its share of global exports from 7% to 15% in those 12 years, while India saw a 2% increase to 6%.

The same effect is seen closer to home. In 2015, younger EU Member States – mostly in the CEE region – could overtake Europe's peripheral economies in terms of market share in inner-EU exports thanks to their lower production costs, more flexible labour markets, geographical proximity and lower taxes. For these reasons, UniCredit has worked to become the pre-eminent bank facilitating trade connections between Europe and emerging markets, helping its clients achieve their potential at home and abroad.

In practical terms, the operations of expansion-minded companies must be ready to meet the challenges – so improving scalability and risk management are key priorities. Fortunately, two emerging trends can help corporates meet this challenge: the growing strategic role of treasury departments, and the technological advances available to them through the digitalisation of previously manual processes.

From a cash management perspective, digitalisation has opened the door to new payments and cash management processes – such as Virtual Accounts or new eCommerce services such as c-Bill and myBank – that can vastly improve efficiency, transparency, and risk management.

Bresciani: From a trade finance perspective, working capital optimisation will be the focus for many corporates. Of course, strengthening short-term financing programmes will open up new sources of liquidity for investment, which means it is necessary for corporates to establish themselves in new markets and stimulate growth.

Such a programme also promises robust risk management, increased bargaining power and long-term supply-chain sustainability. Ultimately, this objective will require new levels of co-operation between finance, sales, procurement and treasury functions.

As the natural leader of these processes, the treasury department must work to combine the efficiencies generated across both trade finance and cash management disciplines. They will see their strategic role increase along with their workload. As such, successful implementation of these programmes will require careful management and efficient, electronic platforms – which is where the new strategic role of treasury departments meets innovative digitalisation.

Without these new platforms, treasury departments will struggle to manage their growing workloads and meet the challenges of new markets – not least the rising regulatory requirements.

Can you outline some of the efficiencies offered by digitalisation?

Straußfeld: For a start, many corporates are beginning to analyse their account structures to identify potential for savings in administration costs. Indeed, SEPA grants the opportunity for the wholesale consolidation of your account structure through digitalisation. By implementing a "virtual account" structure, where a practically infinite number of "virtual" accounts are linked to one "physical" account, corporates can reduce costs while improving transparency and control.

In practical terms, each customer is assigned a unique account number for payments and receivables. This account number acts as the only necessary identifier for individual customers – and it can be linked to certain subsidiaries and branches within the corporate structure.

Some more sophisticated virtual accounts systems – such as that offered by UniCredit – offer individual statements for each virtual account. Such a system provides corporate treasury departments and local subsidiaries all the information necessary for efficient, automated, reconciliation. What's more, virtual account solutions can be rolled out across countries and jurisdictions – and UniCredit is able to offer virtual solutions in several CEE countries. For corporate clients running payment factories, this opens the door to simple account structures based on a drastically limited number of physical accounts across different countries – including those outside of the Eurozone, even in countries considered heavily regulated such as Serbia.

With better control, efficiency and transparency – and healthier reconciliation percentages – this kind of digital system will help corporates immeasurably in improving their scalability and risk management.

Do these benefits extend to financial institutions?

Straußfeld: Indeed, the risk management benefits are very useful for financial institutions such as insurers or leasing companies. Centralised cash management processes such as Virtual Accounts allow these firms to react to market events quickly and closely monitor counterparty risk exposures.

Meanwhile, other cash management services, such as PayFX, show how banks and corporates can work together to minimise the risks faced when dealing with new counterparties in foreign countries. With PayFX, international importers can pay invoices directly in the supplier's local currency with UniCredit. Equally, exporters can issue invoices directly in the currency of the destination country and then convert these incoming payments at real-time interbank rates, including the agreed spreads. This eliminates the need for time-consuming "exchange rate shopping".

UniCredit is also working with smaller, regional banks to allow them to provide the same service to their clients. In this way, partnerships between global banks and their smaller, regional peers can cut costs and ease the process for internationally-minded corporates to establish themselves in new markets.

Finally, eCommerce services are starting to bring added value to corporate clients as well as retail customers. In Italy, new services like c-Bill and MyBank are very good examples of systems where both corporate and retail customers can benefit from secure online payment services provided by banks.

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Are there any new developments in trade finance which can help corporates enter new markets in this way?

Bresciani: With bank risk appetite increasing as western economies improve, more corporates are rationalising their receivables portfolios. This makes sense for corporates with exposure to a high number of similarly-risky receivables contracts – for example, to counterparties in the same high-risk region – which can manage their concentration risks by bundling them into a package for banks or alternative lenders. Not only does this improve the corporate's Days Sales Outstanding (DSO), but also the asset quality on its balance sheet – opening up new capital for investment.

In a similar vein, larger corporates are beginning to use their strong credit profiles to extend positive financing conditions to suppliers with higher credit risks – again, this is particularly useful for corporates whose supply chains extend into emerging markets. If the buyer guarantees its bank payment for specific invoices, the bank can go on to extend liquidity to the supplier based on the strength of the buyer's credit profile. Such a process can help to maintain the financial health of crucial suppliers. But it can also be leveraged to secure better terms.

Both programmes demand co-operation between treasury, finance, procurement and sales departments – which requires the implementation of new digital processes, through shared platforms, to ensure all parties communicate effectively.

Bank Payment Obligations (BPOs) have long been heralded as a new tool to manage risks in trade finance, but adoption has been slow to pick up. Will corporates embrace the BPO in 2015?

Bresciani: We are beginning to see the long-awaited pick up in adoption with a number of landmark deals. On 10 October 2014, a German SME exporter (RVT Rühr- undVerfahrenstechnik) and a large Japanese importer (Mitsui & Co. Plant Systems) fulfilled a delivery contract using a BPO. Before this happened, these companies had transacted under open account terms.

Then in February 2015, the first BPO transaction ever carried out in Italy took place. By combining the typical advantages of documentary credit – bank intermediation – with the speed of open account payments, BPOs reduce time and costs with an automated data transmission system. In practical terms, a BPO is a binding agreement by a bank to pay another bank, on matching of data relating to the commercial transaction.

Using BPOs, the seller has more certainty of payment than under open account transactions. Meanwhile, the buyer benefits from improved payment conditions. It is a classic example of how new digital processes can help corporates manage risk exposures more effectively.

How can these myriad systems and developments be handled by treasury departments?

Straußfeld: It goes without saying that there is no "one size fits all" approach. But crucial to implementing these new processes will be efficient new electronic platforms, building links and sharing information automatically between treasury, finance, procurement and sales functions.

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