Moving Treasury into the Digital Era

by Markus Straussfeld, Head of Cash Management International Sales and Alfredo Bresciani, Head of Trade Finance International Sales, UniCredit

Treasury departments stand on the brink of a transformative year. Markus Straussfeld, Head of Cash Management International Sales, and Alfredo Bresciani, Head of Trade Finance International Sales, at UniCredit, discuss how new digital processes are the key to achieving the scalability and risk management required to meet the near-future's challenges and opportunities.

Western economies finally look set to enjoy a period of sustained growth, and access to emerging markets such as those in Central and Eastern Europe (CEE) will soon be markedly improved as they integrate into the Single Euro Payments Area (SEPA). Slovenia and Slovakia, for example, are already SEPA-compliant, and Croatia is soon to follow. Meanwhile, liberalisation in Asia is turning cash pool structures that optimise liquidity positions across continents – once considered a pipe dream – into reality.

According to Markus Straussfeld, expanding into new markets is the key for companies looking to exploit these opportunities while remaining competitive.

"Certainly, the time is ripe for expansion," he says. "Developing economies are contributing more and more to global trade, raising their share in global output from 39% in 2000 to 52% in 2012, according to the World Trade Organisation – a phenomenon due in no small part to the increase in trade flows between Europe and the emerging markets."

Of course, corporates looking to move their operations into new markets will inevitably face challenges. And to meet these, they will need to be strong in a number of areas, says Straussfeld.

"Scalability and risk management are crucial," he says. "Fortunately, treasurers will be helped here by two trends. The first is that treasury departments are starting to enjoy an increasing role in the strategic direction of their companies. The second is that they now also have the benefit of technological advances that greatly simplify previously-arduous manual processes."

Indeed, digitalisation has ushered in a new range of tools to help treasurers ease the transition into new markets. New payment methods such as e-Billing CBILL and MyBank, as well as new cash management solutions such as Virtual Accounts , all improve risk management, transparency and efficiency.

However, according to Alfredo Bresciani, firms will also be looking to optimise their working capital – a process that will free cash for investment elsewhere. "Investing in short-term financing programmes will naturally turn corporates toward new markets," he says.

"Corporates are starting to utilise new financing techniques, and these are bringing a raft of advantages, including stronger risk management, greater bargaining power, and more-durable supply chains."

However, he stresses, "These techniques will require strong communication between firms' finance, sales, procurement and treasury departments, if they are to be carried out effectively."

Of course, treasury departments will be right at the heart of this movement, and cash management processes will have to be highly efficient for these techniques to be executed successfully. "Even from a trade finance perspective, digitalising cash management operations is an important step," says Bresciani. "Treasury departments are taking on extra responsibility, and shouldering extra work as a result. When you factor in dealing with increasing regulatory requirements, treasurers will have a challenge simply keeping on top of the workload. Digitalising their cash management processes will be vital in helping them relieve some of the burden."

Moving towards harmonisation

These new digital platforms have been facilitated in large part by the implementation of the Single European Payments Area (SEPA).

"At this stage, Eurozone corporates should be finished with SEPA implementation," says Straussfeld. "However, the question remains whether similar measures will be brought in to harmonise payments in other formats. Where SEPA predominantly affected large multinational companies, regulation for other formats will reach right through to SMEs."

Non-euro EU corporates such as those in Central and Eastern Europe, meanwhile, still have until October 2016 to make the transition.

"Our experience suggests they will be surprised at how few difficulties they encounter when carrying out the fundamental transition," says Straussfeld. "Thereafter, however, they are likely to face numerous challenges."

At the root of these problems, according to Straussfeld, is the difficulty inherent in testing the new systems, and the inevitability that some counterparties will still be using old data formats. "The keys to overcoming these problems," he says, "will be strong communication and collaboration between all relevant parties – including partner banks."

With these hurdles cleared, SEPA paves the way for significant efficiency gains. The chief reason for this is that, under SEPA, international and domestic transactions within the EU are treated equally. "This allows huge scope for improving scalability across Europe," says Straussfeld.

Generating efficiency from SEPA

SEPA's main benefit is improved account administration, says Straussfeld.

"Corporates can consolidate their existing accounts into a virtual-account structure," he says, "which enables a single physical account to be sub-divided into any number of virtual accounts – increasing both transparency and control."

"Virtual accounts function much like a normal bank account," continues Straussfeld. "Indeed, more-sophisticated systems, such as UniCredit's, enable corporates to view individual statements for each virtual account – meaning treasuries and local subsidiaries are fully equipped to carry out efficient, automated reconciliation on their accounts."

Virtual account solutions can be combined across countries too. Those already covered by SEPA are easy targets for this, but some banks, such as UniCredit, also offer virtual accounts in CEE countries.

"Corporate clients running payment factories can use these to simplify their structures – drastically reducing the number of physical accounts both in and outside the Eurozone," says Straussfeld.

"Virtual-account solutions improve both scalability and risk management – offering

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He previously had various responsibilities in the field of cash management at Westdeutsche Landesbank (WestLB) and Commerzbank AG.

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better control, efficiency and transparency than ever before."

Other developments such as camt account statements offer new tools for capitalising on SEPA efficiency. "We foresee increasing demand for camt.086 statements," says Straussfeld. "These offer highly-detailed information on expenses related to account and cash management, and give treasurers insight into how they can minimise both risk and costs."

Embracing digital technology across the board

The use of eCommerce services is also increasing. New products, such as e-Billing CBILL and MyBank, allow corporate and retail clients to use secure online payment systems provided by banks. "While they offer exceptional value for large billers, these services look set to become essential for anyone looking for simple and secure payment," says Straussfeld.

Now is certainly the time for corporates to invest in a new generation of digitalised solutions, but there is also one existing solution that may be set for a significant increase in uptake.

Indeed, the adoption of Bank Payment Obligations (BPOs) is finally starting to pick up. "At UniCredit, we have recently overseen a number of landmark deals," says Bresciani. "On 10 October 2014, for example, German exporter, RVT Rühr- und Verfahrenstechnik, and Japanese importer, Mitsui & Co. Plant Systems, fulfilled a delivery contract using a BPO, instead of their usual open account terms."

Meanwhile, in February 2015, UniCredit facilitated the first ever Italian BPO transaction, settling a commercial operation between Arona-based producer of industrial cooling systems, SPIG S.P.A., and one of its German suppliers.

BPOs are binding agreements in which two banks carry out a transaction on behalf of their respective clients, using an automated data-transmission system. "This offers the best of both worlds," says Bresciani. "Bank mediation reduces settlement risk – a key concern for corporates moving into new regions – while automation maintains the speed and efficiency of open accounts. As such, BPOs are an excellent example of a digital process that promotes more-efficient risk management among corporates."

Taking advantage of new techniques in trade finance

New trade finance techniques are now making it easier for firms to move into new markets. One such technique is receivables financing – where corporates awaiting payment from counterparties in the same high-risk area sell the contracts on to banks or alternative lenders.

"This is a useful tool when entering new markets," says Bresciani. "It mitigates firms' over-exposure to a region and improves both the Days Sales Outstanding and the asset quality on their balance sheet."

Meanwhile, larger corporates are using their strong credit ratings to secure financing for their suppliers.

"Buyers are guaranteeing payments for specific invoices on behalf of their suppliers," says Bresciani. "This means banks can offer credit on the strength of the buyer's superior profile, rather than the supplier's weaker one. This technique is proving invaluable for maintaining the health of suppliers – especially for corporates whose supply chains extend into the emerging markets, where securing finance is typically more uncertain."

What's more, he explains, this puts corporates in a position to access cheaper goods – using their position as leverage for brokering a better deal with suppliers.

Handling the load

So with all these developments taking place, and faced with new demands in terms of both expansion and regulation, treasuries will have a lot on their plates over the next year. What can they do to keep on top of everything?

"While I should stress that no one approach will suit all firms," replies Straussfeld, "new and more-efficient electronic platforms look to be the surest way for firms to meet these challenges – enabling corporates to build links and share information automatically between the key departments involved, such as treasury, finance, procurement and sales."

"I agree," says Bresciani. "Without the new platforms, ambitious trade finance and cash management programmes simply wouldn't be possible. They offer a wide range of benefits, helping optimise working capital, strengthening supply chains, and keeping risks in sight. These advantages alone make these new electronic platforms a key weapon in the arsenal of forward-thinking treasury departments in the years to come." ■

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Alfredo Bresciani is a graduate of Pisa University, Italy, holding a degree in Business Administration and a major in corporate finance from Luiss Management School, Rome. He joined UniCredit in May 2011 as head of International Finance Sales Italy at UniCredit SpA to build the newly created International Trade Finance team covering the CIB Multinational Corporates clients in Italy. From October 2014 he has been Head of trade Finance International sales (TFIS) His responsibilities include the management and development of TFIS business and provision of strategic direction in the core UniCredit countries.

Previously he was the Head of Trade and Supply Chain Italy at HSBC in Italy. Prior to that he was the Head of Global Trade Services Italy at Fortis Italy, where he started up the trade finance business from scratch and built a very strong team. He also held the position of Treasury and Finance Manager in a midcap company producing machinery for the corrugated paper industry.