# The Treasurer

TREASURY EXCELLENCE AS STANDARD

THE MAGAZINE OF THE ASSOCIATION OF CORPORATE TREASURERS

ISSUE 3 2023

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# SWIMMING, NOT DROWNING

A year can seem like a long time in finance – as novelist LP Hartley said: "The past is a foreign country; they do things differently there." This is particularly true of the technology that underpins many finance functions. Less than a year ago, OpenAI made its ChatGPT bot available to all, bringing to life a revolution that had previously felt more theoretical than practical.

But theory is now very much in practice, and for treasurers it will allow a greater opportunity to take a deep dive into the data that underlines forecasts. This is one of the major currents within our main feature in this issue – treasurers could be swimming in a sea of data, but technology is helping them navigate these waters.

> **"Technology is helping them navigate these waters"**

In the same vein, we hear from the Association of Corporate Treasurers' future leaders group, who have taken the time to share their experiences of implementing a treasury management system – in the words of one of our contributors, "having a TMS is not about being technologically advanced but about being able to keep pace with the rest of the world". The businesses featured all know that doing nothing, as the rest of the business world progresses is not an option.

Many of you may be reading this while at the ACT's Middle East Treasury Summit. The event is a highlight for treasurers in the region, and provides a welcome chance to share best practice and personal experiences – not just in technology, but in human resources and working practices. Speaking to the CFO of an international bank in Dubai recently, it is clear there many opportunities for treasurers – his main complaint was not being able to find enough talent with the right skills.

To acknowledge these tremendous opportunities, we are running a number of articles from those working in the region. For instance, we hear from Rahul Daswani FCT, who is the founder of LHD Research and a former Microsoft executive. Daswani strongly believes this is a golden time for technology in the Middle East, and treasurers are well-placed to take advantage

I particularly recommend the "day in the life" of Chandi Mwenebungu, who is group treasurer and director of African Export-Import Bank (Afreximbank). He fears a slowdown in the global economy could lead to a retrenchment from investors – in the past, African nations were the first to experience such retrenchment, but he is working hard to ensure this does not happen again.

Finally, can I point you towards the profile interview with Annette Spencer, who has recently joined the ACT as its new chief executive. Many of you will be able to meet her at upcoming ACT events, including the ACT Annual Dinner in November. Welcome aboard!

**phil.smith@cplone.co.uk**
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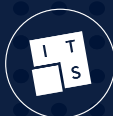

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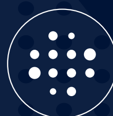
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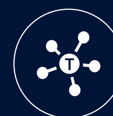

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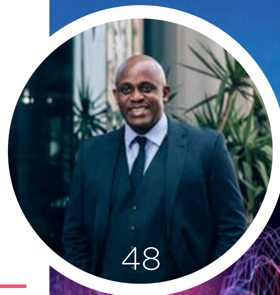

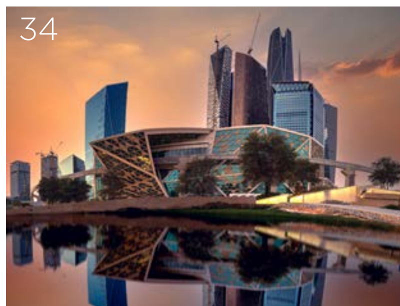

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# Diving into the data sea

How can existing and emerging technology help treasurers to get more from their cash flow and liquidity data? Lesley Meall reports

There have been plenty of tricky questions for treasurers to ponder during 2023. Can we gain faster and more accurate visibility of our currency risk? Should we increase our debt or defer until borrowing costs fall? Is now the right time to rationalise banking relationships? What more can we do to address the negative impact of inflation? Will generative AI assist me or replace me in my role?

It's not an easy time to be a corporate treasurer. Successive shocks have shaken economies nationally and internationally since the pandemic and this has helped to create a new normal for turbulence. "I don't think we have Black Swan events any more, we have frequent disruptions," observes Duncan Cole, Citi director and EMEA head of its treasury advisory group.

High levels of uncertainty are putting fundamental financial issues front and centre for many treasurers. Recently, PwC's 2023 Global Treasury Survey[1] found "cash and liquidity management" at the top of the priority list for treasurers, while the 2023 survey by the European Association of Corporate Treasurers[2] found "cash flow forecasting" at number one, followed by "working capital management optimisation".

Technology can play a significant role in enabling efficient and effective management of cash, working capital and liquidity (especially for forecasting) and attempts to optimise related processes and improve their accuracy. So, it is perhaps unsurprising that "treasury technology infrastructure review/replacement of IT tools" ranked a close third in the EACT survey results.

All these priorities seem to loom large as drivers for new and ongoing treasury-related technology projects. Companies are replacing, or actively considering the replacement of, manual, semi-manual or spreadsheet approaches, expanding their use of a treasury management system (TMS) by using additional modules, and replacing their existing treasury-related software tools or TMS by changing software providers.

## Digital transformation

In a world where wide-ranging digital transformation projects are not unusual, decisions on treasury-related systems can go hand in hand with these projects. When listed international catering company DO & CO recently selected a treasury solution to help it simplify and streamline treasury, some of the considerations reflected its strategic decision to move from an on-premises environment to one hosted in the cloud.

As applications, systems and workloads across the group were to migrate into the cloud, DO & CO wanted a software-as-a-service (SaaS) treasury solution, one that could help it to gain transparency into global cash positions, manage cash projections, and enable it to centralise, control and manage end-to-end payment cycles across the three business segments, 12 countries and 32 locations in which it operates.

Early in 2023, DO & CO chose Nomentia's treasury and cash management software to help it optimise daily payments and get a better group-wide overview. Sonja Exner, DO & CO director of global finance, says: "In the future, worldwide payment transactions, financial status and cash flow forecasting will be processed via SaaS. Flexible and reliable reporting is also on board."

A company-wide digital transformation also set the stage for a recent TMS upgrade by leading Swedish construction company NCC. As part of this digital transformation, NCC is, for example, replacing an enterprise resource planning (ERP) system and enterprise asset management (EAM) software with IFS Cloud in NCC operations across four Nordic countries.

"We wanted to replace our existing set-up with an innovative solution for cash, liquidity, risk management, and accounting," says NCC treasurer Charlotte Lindstedt. The ION IT2 product that's recently been selected is expected to improve accuracy and efficiency across treasury and financial risk management, in part, by enabling more data-driven decision-making.

This is in keeping with some of the wider strategic development aims at NCC. "We are going through a strategic digital transformation journey, and becoming increasingly data-informed is one of the key targets," says NCC chief information officer Kari Kulotie. "By... being able to take decisions based on correct data, we will gain better control of our business."

## Datafication

Improving data access, quality, timeliness, and accuracy is key to digital transformation projects and treasury technology initiatives, as organisations position themselves to better exploit both existing and emerging technologies. It was a driver even in 2019, when Unilever decided to do more around cash forecasting, as were operational challenges and the prospect of future interest rate rises.

A fragmented, semi-manual and in some countries non-existent approach to cash management offered potential for improvement. "Better systems, technology and ways of

**“By becoming more data-informed and being able to take decisions based on correct data, we will gain better control of our business”**

integrating were possible,” says Gerard Tuinenburg, treasury director of systems, innovations, and transactional banking at Unilever. “There were lots of products on the market to help with cash flow forecasting,” he says, as well as innovations using AI, machine learning and the like.

Starting with a small project, Unilever did its research, RFPs and selected a vendor, Cashforce, which has since become TIS CashOptix. Tuinenberg says: “We made a strategic decision to go with a smaller fintech, rather than a big SAP,” although this ERP is used across the global business.

“We wanted to be flexible, wanted to integrate quickly, and wanted to own our system,” explains Tuinenberg. There are four instances of SAP globally ‘owned’ by Unilever’s IT department. Rather than connect with each of these four ERP instances, the TIS cash system was implemented on top of Unilever’s data lake: the SAP systems send data to it daily (on financial reporting, the supply chain and so on) and CashOptix has a single interface with the data lake.

Harmonising the data landscape, simplifying data aggregation and classification from Unilever’s multi-ERP and banking environment, and using CashOptix has all helped Tuinenberg and his team to optimise cash and working capital and save the fast-moving consumer goods giant millions of dollars. Unilever has also boosted its forecast accuracy from 50% to 80%+ globally and reduced variances to less than 10% for 30-day forecasts.

### The new ABC of AI – and treasury

What can be achieved by treasury professionals armed with the right data and software tools is changing fast. Specialist software developers have been exploiting AI techniques such as machine learning (ML), natural language programming (NLP) and large language models (LLMs) for years (as *The Treasurer* explores in Issue 1 2023, p32 and Issue 3 2022 p7). But technology innovations and developments during 2023 may signal a step change in what AI can and may soon make possible.

When OpenAI made its chatbot ChatGPT (a generative pre-trained transformer and LLM) freely and publicly available in November 2022, it supercharged hype around where this and other generative AI (GenAI) might lead. It also spurred investment and innovation. Some developers of finance-related software are now using ChatGPT or the OpenAI’s GPT LLM that enables it, to enhance their products; others are working on finance-specific GPTs.

By May 2023, a GenAI finance and treasury tool had arrived: Trovata AI. It aims to combine the benefits of OpenAI’s GPT with the benefits of existing Trovata products (for automating cash analysis, forecasting, positioning and reporting, and payments), to help Trovata users get more value from available data and find information and answers to questions more quickly and easily.

### A hybrid approach

Taking this hybrid approach was a decision not taken lightly. Trovata had concerns about accuracy, privacy, security and trust. It did not want to share its users’ sensitive financial data – such as balances and transactions – with OpenAI or any other third party. But it did want to benefit from the GPT’s access to huge amounts of data (and context on, for example, financial strategy), its near-instantaneous response times, and the personalised assistance it could enable.

Initial concerns have been addressed, explains Joseph Drambarean, Trovata’s chief technology officer and chief product officer, by giving OpenAI’s GPT-4 permission to use Trovata’s application programming interface (API), while everything stays in Trovata. “It’s not GPT-4 that is doing the calculations, it’s still Trovata,” he says. “Think of it as your own, personal, closed-loop version of ChatGPT for finance.”

Asking Trovata AI questions may not feel much different from chatting with a living, breathing, human colleague using, for example, the instant messaging in Slack or Microsoft Teams. Ask the AI: “What’s my cash burn rate for the past 30 days?” and not only can it instantly tell you, because it ‘remembers’ this question, if you follow it with “Can you plot this on a line graph?” it does that, too. No need to mention cash burn again or even say “please”.

Many organisations and treasurers will probably access GenAI capabilities in the workplace through software developers utilising third-party technology. Similar approaches are being taken between OpenAI and Amazon, Microsoft, and SAP. The latter is also developing partnerships and supporting start-ups to open up the enterprise AI ecosystem and reduce reliance on a single provider of GenAI tech: SAP recently announced investments in GenAI players Aleph Alpha, Anthropic and Cohere.

### Exploiting APIs and AI

Organisations and treasurers are getting used to considering the pros and cons of transferring (even sensitive) financial data backwards and forwards between separate software applications and using APIs to automate this, in no small part because of open banking. Nor is treasury software that utilises AI tools and techniques new.

TMS provider Kyriba launched an AI-driven cash management solution during 2022, using data science technologies to predict cash availability with increased speed, control and reliability. ION did this even earlier, using machine learning (ML), a neural network and language models in its TMS. "Our solutions focus on use cases across the treasury function," says Peter Pippan, one of ION's experts on machine learning and API technology.

ChatGPT and similar chatbots have proven very useful when it comes to general inquiries and text, while existing uses of AI by TMS developers tend to focus on treasury and develop less general models. Pippan explains: "Our language models have been trained with substantial amounts of texts from SWIFT messages. For very specialised tasks in treasury, more specialised ML models can perform extremely well."

### Finance-specific GenAI models

Other developers of specialist software and services also believe that the complexity and unique terminology of finance warrants domain-specific large language models. In March 2023, Bloomberg released a research paper on BloombergGTP, which has been specifically trained on a wide range of financial (and other) data, to support a diverse set of financial natural language processing (NLP) tasks.

"For all the reasons generative LLMs are attractive – few-shot learning, text generation, conversational systems, etc – we see tremendous value in having developed the first LLM focused on the financial domain," says Shawn Edwards, Bloomberg's chief technology officer. It was helped in this by its existing use of AI, ML and NLP for finance-related tasks and the related NLP and Bloomberg internal benchmarks it has developed over the years.

In adding the word large to the phrase 'language model', Bloomberg was aided by its vast archive of financial data. From this, it pulled a 363-billion token (aka anonymised) dataset, consisting of English financial documents, and augmented this with a 345-billion token public dataset, creating a massive sea of data. Then, Bloomberg used a portion of this, a whopping 50-billion parameters, to train its finance domain-specific LLM for BloombergGPT.

### Augmenting not eradicating treasurers

How such developments evolve and play out in the longer-term remains to be seen. It is impossible to predict with any degree of accuracy where developments around AI including GenAI will lead. There are simply too many moving parts. And, if the prospect of fewer jobs for those in treasury and other areas of finance is looming on the horizon, it's probably a far-distant one. Today, even with ChatGPT, the emphasis is on augmenting not eradicating.

**Lesley Meall is a freelance finance and technology journalist**

1. explore.pwc.com/2023globaltreasurysurvey
2. https://eact.eu/articles/eact-treasury-survey-2023/

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# Pay pressures: inflation drives wage demand

Salary still tops a treasurer's priorities when looking to get hired, but recruiters are seeing a nuanced picture emerging when it comes to expectations

## "Increasing economic pressures in the last 18 months are having a real effect on disposable income, so salary has been pushed forward again"

**JESSICA TIMELIN, OPERATING DIRECTOR, MICHAEL PAGE TREASURY**

If there's one thing shaping treasury professionals' views when considering their next move, it's the cost-of-living crisis.

The ongoing war in Ukraine and its effect on stubbornly high levels of inflation in almost every area of life has provoked a change of mindset, says Jessica Timelin, operating director, corporate services and finance, Michael Page Treasury.

She says the enduring nature of the economic environment is pushing treasurers to seek significant salary increases, after a period of relative stagnation in remuneration.

"Increasing economic pressures in the last 18 months are having a real effect on disposable income, so salary has been pushed forward again in terms of importance for people choosing to make a move," she says.

"We've noticed the steepest rise from treasury professionals trying to negotiate themselves a pay rise due to an external move is at the level of senior analysts and junior managers. That's where you're seeing people changing jobs very frequently, compared to 10 years ago when I started my career," she says.

Timelin says that dynamic may be driven by how and where more junior staff live. "Typically, that demographic of individuals will be younger, they will typically be renting and rental prices in London and other large cities have gone up a huge amount," she says.

Eliot Bates, head of treasury UK at recruitment firm Brewer Morris, says it is hard to pinpoint exact numbers. However, there has been a significant increase in salaries for treasury professionals over the past few years. Candidates with two years' experience, for example, have seen salaries increase to £45-50,000 compared with the pre-COVID period, whereas deputy treasurers can now expect salaries in the region of £130,000 instead of £120,000 at the start of last year, and group treasurers are also starting to see an uplift.

"The market is becoming tighter in terms of the salaries. We're finding some of the gaps that separated candidates at the different levels are becoming slightly smaller," says Bates.

But as the higher cost of living has become the new normal, some organisations have started increasing salaries, says Timelin. "We saw a really interesting turning point in the first quarter this year where typically a lot of pay-rise conversations happen, when the realisation hit that high inflation wasn't just short term.

"A lot of corporates went out and gave pay rises that were maybe in the four to five per cent mark, but still below the current rate of inflation. Nevertheless, it was a massive trigger for candidates to say 'I'm definitely going to be financially worse off, what can I do about this?'"

Many are therefore looking to new roles in order to up their salaries. It's a timely shift, say some commentators, who believe the role of treasurer has long been undervalued as a result of various factors.

Colin Evans, who runs consultancy Elite Treasury Services, says part of the problem is how treasurers are pegged to other finance professionals. "Although it's a completely different skill set to regular finance roles, they are often grouped together when thinking about salaries. An experienced treasury professional is often ranked as middle management without reference to their unique skill sets, and their salary tends to reflect that," he says.

Mike Richards, founder of the Treasury Recruitment Company, says that while "US salaries skyrocketed, and mainland Europe kept up with consistent increases in the second quarter, the UK treasury market surprisingly lags behind, both in wages and overall compensation, despite intense inflation pressure".

Looking at Europe, the market for treasurers in the Benelux region, particularly in the Netherlands, is still very competitive and very much a candidate-driven market. According

to Daryl Ong, associate director, treasury and specialist finance for Brewer Morris (Benelux), there seems to be a healthy flow of jobs in the market but fewer candidates who are actively looking for a new position. "Most, however, are open to move for the right opportunity," she says.

"Increments for a new job used to be up to 10% in the past but are now shifting more towards 10-15% with inflation being taken into account when it comes to salary negotiations. [But] candidates tend to look at a package on an overall basis, not just on the base salary but all the other benefits including bonus, pension, insurance, car/transport allowance, meal allowance, hybrid-working arrangement and so on, before making a decision."

Ong adds that the Benelux region is an attractive hub for treasurers looking to relocate.

"With an international mindset and English being widely-spoken, there is a large and welcoming expat community," she says. "Talent looking for better work life balance and/or higher salaries than the regions they are originally from could target this region. We have seen a lot of candidates from places like Eastern Europe or the Middle East, particularly Turkey, make the move successfully."

## Work/life balance

Richards says that although salary remains the top priority, an increasing number of other variables are being considered when it comes to being hired for a new role.

In the Quarterly Treasury Salary Survey Q2 2023 conducted by the firm, salary was not the main factor when motivating treasury professionals in their positions. Across the Americas, UK and mainland Europe, the firm found that the happiest treasury professionals say that what rates above salary, in joint first place across all regions, is a good work/life balance and a good boss. Varied work was in third place and a good salary came in fourth. For those who are unhappy across the regions, a lack of progression was in first place, then in joint second place were salary and overall reward, while having a poor boss stood in fourth place.

At the moment, treasury professionals appear to be getting what they want when it comes to flexible working. Quarter 2 data from the Treasury Recruitment Company shows that 42% wanted to work in an office two days a week and 21% wanted to go in three days a week. The number actually going into an office to work for two and three days was 30% and 24% respectively. Only five per cent were going in five days a week, and only two per cent were being asked to come in every day of the week.

Tim de Knegt, treasurer of the Port of Rotterdam, says the ability to undertake flexible working will largely depend on the degree of collaboration and integration between staff. "Once things become kind of routine, it's much easier to do things off site or to do things hybrid. I think it's also going to be different where some certain functions are more centralised compared to others that are very decentralised," he says.

Who's asking about flexibility is interesting, as younger staff who would gain most from spending more time around seniors and getting to know systems, are often keen for flexibility, says Bates.

"There are various reasons for this, however one thing that is important to remember is flexibility is now very high up on candidates' lists when looking for a new job. It is up there alongside the breadth of a role and development/progression opportunities," he says.

Michael Page's Timelin sees that although there is a need for junior staff to spend more time in the office, to shadow senior staff, they may find seniors aren't there. "Then they'll say there's no point in being there if there's no-one for them to learn from. That's when I think greater flexibility might backfire," she says.

The exceptions, says Timelin, are the financial services sector, where a full week is often the

**"The UK treasury market surprisingly lags behind [the US and mainland Europe], both in wages and overall compensation, despite intense inflation pressure"**

**MIKE RICHARDS, THE TREASURY RECRUITMENT COMPANY**

## WHO GETS PAID WHAT, WHERE?

According to The Treasury Recruitment Company, treasurers in the UK, Europe and North America can expect the following salary levels:

| POSITION | UK AVERAGE SALARY (GBP) | EUROPE AVERAGE SALARY (EUR) | US AVERAGE SALARY (USD) |
|---|---|---|---|
| Treasury analyst/dealer | 46,022 | 62,000 | 91,117 |
| Treasury manager | 71,829 | 95,000 | 129,707 |
| Treasury accountant | 55,000 | 60,000 | 54,000 |
| Treasury consultant | 72,000 | 80,000 | 100,000 |
| Senior treasury consultant | 160,000 | 180,000 | 204,500 |
| Assistant treasurer | 95,000 | 110,000 | 196,689 |
| Deputy treasurer | 130,000 | 150,000 | 311,513 |
| International/regional treasurer | 100,000 | 120,000 | 192,876 |
| Group treasurer | 145,000 | 170,000 | 241,126 |
| Global treasurer/treasury director | 210,000 | 290,000 | 391,019 |

Source: The Treasury Recruitment Company

However, much depends on the type of organisation you work for – there is a wide gap between working for a FTSE company and an SME, as recruitment consultancy Hays found in London:

| | FTSE 100 | FTSE 250 | SME |
|---|---|---|---|
| London | Typical £ | Typical £ | Typical £ |
| Group treasurer | 180,000 | 135,000 | 107,000 |
| Assistant/deputy treasurer | 130,000 | | |
| Treasury manager | 90,000 | 75,000 | 70,000 |
| Treasury accountant | 85,000 | 60,000 | 60,000 |
| Treasury dealer | 65,000 | 52,000 | |
| Treasury analyst | 55,000 | 48,000 | 52,000 |

Source: Hays Salary Guide 2023

### UAE salary trends

According to recruitment consultancy Robert Half, an experienced treasury director in a large company could expect a salary of $289,000. And someone with that level of experience could expect in be in high demand as well. However, Robert Half reports that businesses are unwilling to increase salaries beyond current levels, but are prepared to make changes to overall packages. That said, opportunities for senior professionals are limited, though the market is booming for junior and mid-level candidates.

| | 25TH PERCENTILE (BEGINNER) | 50TH PERCENTILE (MID-LEVEL) | 75TH PERCENTILE (ADVANCED) |
|---|---|---|---|
| Treasury director (large company) | $196,250 | $228,750 | $289,000 |
| Treasury director (SME) | $148,000 | $196,000 | $245,250 |
| Treasurer (large company) | $147,000 | $184,500 | $222,250 |
| Treasurer (SME) | $129,250 | $151,250 | $173,250 |

Source: Robert Half Salary Survey 2023

norm and to a lesser extent firms in the real estate and retail sectors, where staff are expected to be in the office at least three to four days a week.

The trade-off is that financial services will pay more for treasury staff. "Broadly speaking, financial firms will pay a premium. We are seeing a wage discrepancy between corporate and financial services," she says.

One idea that is less likely to take off is a reduced working week, to say four days. Reflecting on Michael Page's roster of largely FTSE-350 size companies, Timelin says: "Because they tend to have quite a large employee headcount or large footprint, we don't see signs of introducing a four-day working week.

"That tends to be more in start-ups or SMEs," she says.

### Way forward

Continued economic uncertainty may provide the prospect of movement for treasurers, leading to higher salaries, says Elite Treasury Services' Evans. "As companies increasingly come under liquidity pressure,

they're more likely to employ somebody who's got a specific treasury skill set.

"This may lead to more roles than there are treasury professionals currently looking to change roles, and that hopefully will drive up the salary value of the treasurer," he says.

"Treasurers tend to be underpaid for the skills that they have because of a lack of appreciation of how important their role is, what their skill sets are and what the capabilities of experienced treasurers are. And I don't always think they've been properly rewarded in the past. But hopefully that will change," he adds.

Brewer Morris's Bates says in the light of uncertain economic conditions, demand will grow for dynamic group treasurers who are able to deal very well in an ever-changing economic landscape.

"You need to be dynamic in the way you're working to be able to deal with potential problems. Having good relationships internally and externally allows you to draw on other people's knowledge and deal with problems that arise," he says.

What kind of remuneration treasury professionals can secure in the months ahead will depend on how budgets are being written in the fourth quarter, ahead of appraisals, promotions and hires, says Michael Page's Timelin. "We've heard a huge amount to suggest that companies are having to listen carefully to what their treasurers are saying, but we will have to see how that will be reflected in pay rises," she says.

**Lawrie Holmes** is a freelance business and financial journalist

**"An experienced treasury professional is often ranked as middle management without reference to their unique skill sets, and their salary tends to reflect that"**

**COLIN EVANS, ELITE TREASURY SERVICES**

# Hybrid debt in action

**As a funding alternative, hybrid debt is becoming more mainstream as corporates appreciate the flexibility it offers. Permjit Singh FCT explains the pros and cons of issuing a hybrid over senior debt**

Subordinated to senior debt yet senior to ordinary shares, hybrids are the mezzanine layer in a company's capital structure. Hybrids may be reported on the balance sheet as equity and treated as such by auditors and credit rating agencies. The effect is lower gearing, credit risk, and weighted average cost of capital (WACC), and so a higher company value.

Like straight debt, and unlike ordinary shares, hybrids won't dilute equity ownership and compromise corporate control.

Because unlisted companies lack the public profile and market reach to raise conventional equity, hybrids are an alternative source of equity for them.

The ability to defer hybrid coupon and/or principal payments (like ordinary share capital and dividends) gives the company options and flexibility to conserve cash in a liquidity crisis.

Raising debt is not an option for highly geared companies because it increases their financial risk and WACC. Nor is it an option for companies at the limit of their debt capacity. In those circumstances, such companies would have no option but to raise relatively expensive equity, but the astute treasurer will know there is a third option, issuing hybrids.

"Overall, while more expensive than senior bonds, hybrids diversify the long-term capital structure, are supportive to credit metrics... and further strengthen the liquidity position," said Credit Suisse analyst Thomas Adolff, about BP's $12bn of multi-currency hybrid bonds issued during the COVID crisis in H1 2020.

In addition to plugging the funding gap, hybrids diversify funding, and being a cheaper form of equity than ordinary shares, they'll lower the WACC and so increase company value. If allowed by tax authorities, company value can further increase because of the tax shield of debt.

SSE's March 2017 hybrid bonds had a fixed redemption date and were therefore treated as debt, but its 2020 and 2022 hybrids were perpetuals and were therefore treated as equity, for accounting purposes.

> "Hybrids diversify funding, and being a cheaper form of equity than ordinary shares, they'll lower the WACC"

In Europe, the hybrid bond market has grown by 1,000% in the last decade to around €200bn. Issuance is expected to pick up from the slump over the last two years caused by a deteriorating economic environment and heightened interest rates, if only because of around €50bn of bonds with call dates in the next two years.

Hybrids are a favourite of capital-intensive companies, such as utilities and telcos, and they, along with energy companies, account for more than half of European non-financial company issuance. Other candidates for hybrids are companies that need to finance large acquisitions. Typical issue size starts at €500m.

### So, what's the catch with hybrids?

Hybrids are relatively expensive. Utility Enel paid 2.5% extra interest margin on its hybrids compared with its senior debt; no wonder its €1.75bn hybrid offer in January this year was nine times over-subscribed. Most hybrid issuers are investment-grade, so can the extra cost be justified, especially when spreads for hybrids have outpaced spreads on alternative debt?

For the issuer with a strong balance sheet, ample debt capacity and stable cashflow, hybrids are not the optimum choice of finance in the current environment.

Hybrids can be volatile and so difficult to manage because of their embedded call option. Investors anxious about extension risk (that issuers will not follow market convention of exercising their call option and redeeming their bonds), and will be tempted to sell, which will lower the bonds' market price and raise the company's WACC.

The *Financial Times* reported in October 2022: "[The] price of [Naturgy's hybrid] had fallen to 97.55 cents [over market fears it would not call its bond] but shot back to face value after the news [that it would call], offering reassurance to investors." Naturgy's was not the only hybrid experiencing volatility. "Hybrids at risk of not being called have traded well below face value in recent months."

With market interest rates now much higher, and hybrid yield spreads outpacing spreads on alternative debt, treasurers might hesitate to redeem their hybrids. Property company Aroundtown skipped its first call due in January 2023 on its €369m hybrid, saying it was cheaper to extend the issue than call it and replace it with a new hybrid bond.

At the same time, treasurers need to meet investors' expectations: "[not redeeming would] certainly annoy investors... and put pressure on the ability of that credit [issuer] to come back into the hybrid market in the future," said James Vokins at Aviva Investors.

"Corporate hybrid bonds are higher beta and noticeably more volatile compared to traditional investment grade bonds," said Ziling Jiang of Neuberger Berman, so capital intensive and interest-rate sensitive issuers, such as property investment companies, should think twice about issuing hybrids.

Hybrids' correlation with equity market prices, and with volumes in the wider bond market, means hybrids are not a funding alternative when conventional markets are contracting. Jiang added: "The corporate hybrid bond universe is still a relatively concentrated and less liquid space compared to the broader investment grade credit universe." The illiquidity premium might be negligible for established repeat hybrid issuers.

So, in conclusion, hybrid debt occupies a unique tier of a company's capital structure, simultaneously supporting senior debt and ordinary shares, reducing financial risk, lowering WACC, diversifying funding, and offering flexibility during financial distress. On the other hand, volatility, relative illiquidity, and optionality means hybrids are not a panacea for issuers and investors sensitive to interest rates, extension risk, and equity ownership.

But as SSE PLC reported in May this year, "hybrid bonds are a valuable part of SSE's capital structure, helping to diversify SSE's investor base and most importantly to support credit rating ratios."

## VOLKSWAGEN: A CASE STUDY

In June 2020, Volkswagen AG placed two unsecured subordinated hybrid notes with an aggregate principal amount of €3.0bn via a subsidiary, Volkswagen International Finance N.V., Amsterdam, the Netherlands (VIF). The hybrid notes are perpetual, but may be called unilaterally by VIF. The first possible call date for the first note (€1.5bn and a coupon of 3.500%) is after five years, and the first possible call date for the second note (€1.5bn and a coupon of 3.875%) is after nine years. This resulted in an inflow of cash funds amounting to €2,984m, less transaction costs of €16m. Additionally, there were non-cash effects from the deferral of taxes amounting to €5m.

Interest may be accumulated depending on whether a dividend is paid to Volkswagen AG shareholders. Under IAS 32, these hybrid notes must be classified in their entirety as equity. The capital raised was recognised in equity, less a discount and transaction costs and net of deferred taxes. The interest payments payable to the noteholders will be recognised directly in equity. IAS 32 only allows these hybrid notes to be classified as debt once the respective hybrid note is called.

**Permjit Singh FCT** is a director of an invoice finance company and former head of treasury of a mortgage company

# Role of finance in transitioning to a low-carbon climate

**Finance teams are best placed to become experts in sustainability topics, managing the risks and opportunities organisations are facing**

The emergence of the sustainable finance market and climate policy disclosure frameworks are an opportunity for CFOs, treasurers and heads of finance (as well as chief sustainability officers) to step up and guide their organisations towards climate-aligned business models.

To inform the debate, the Climate Bonds Initiative has carried out more than 50 interviews of CFOs, treasurers and heads of finance from more than 30 leading global companies across sectors and geographies over the first part of 2023. It wanted to draw out insights about the role of the finance team in planning and implementing their companies' transition plans.

The finance team has a key role in managing the risks and opportunities offered by taking action or lagging behind in the low-carbon transition. Late, unambitious action, which opens the company to physical, regulatory, and financial climate risks could be negatively priced by investors, damaging the value of the company and bringing long-term reputational impacts. On the flip side, proactive action can bring a sustainable long-term competitive advantage to businesses.

Capital markets are increasingly integrating transition risks into credit risk analysis and financial analysis, leading to more accurate pricing of the risk although recent research indicates that financial models systematically underestimate the real price and risk of climate impacts leading to excessive delay in action. ESG assessment providers and some rating agencies are now providing net-zero assessments of companies.

The other side of risk is opportunity. Interviews have highlighted that integration of a credible net-zero transition plan into the business strategy can be a significant way to build a competitive advantage, increase operational efficiency and reduce a company's cost of capital. This is not only about heavy-emitters – many sectors can gain significant competitive advantage from low-carbon practices as demand for low-carbon products continues to grow across the economy and supply chains are decarbonised.

> "Proactive action can bring a sustainable long-term competitive advantage to businesses"

In addition, pressure is increasing from the dependencies within a company's ecosystem. During our interviews, we heard several mentions of joint company projects that were derailed or delayed because one of the companies involved suddenly had to implement net-zero practices such as electrification of operations, disrupting the whole project both operationally (new planning) and financially (new economics).

Lastly, consumers are making their voice heard, too, as they become increasingly more aware of their carbon footprint driven by their consumption patterns.

Given the growing challenges and risks of delay, how can CFOs and treasurers guide their companies to put them on the decarbonisation track as soon as possible? From the Climate Bonds Initiative interviews, the response is clear.

**1: Start the decarbonisation journey to gain a competitive edge.** The process of decarbonisation should start as soon as possible. Starting soon helps spread the cost of the transition over a longer time, preserve and create value.

**2: Make a business case around decarbonisation.** This needs to be built at the company's investment hurdle rate. For it to succeed, short, medium and long-term scenarios that highlight both the cost of action and inaction need to be made, such as increased revenues, higher initial outlays or higher demand for 'green' products and services.

**3: Get stakeholder buy-in.** The management team will need to curate internal and external buy-in. CFOs and treasurers are in a good position to influence internal stakeholders. They are seen as key decision-makers in resource allocation.

### What about investors?

Many asset managers and asset owners have dedicated funds for decarbonisation strategies, partly as a result of their own commitment to

decarbonise their investment portfolios. Several initiatives and alliances have been launched in the last two years gathering asset owners, asset managers and banks, among others, to publicly commit to decarbonising their portfolios. Those commitments include long-term (2050) and short/medium-term targets. For example, the Net-Zero Asset-Owner Alliance (NZAOA)'s initial decarbonisation targets are set for 2025-26. So, more than ever, investors will keep putting pressure on companies given that they are themselves on the hook to decarbonise.

### Pricing advantages of labelled bonds

The realisation of a 'greenium' can be observed for green bonds. The Climate Bonds Initiative developed and uses the term greenium, which describes a green bond that has priced inside its own yield curve in the primary market (new issue discount), and has been monitoring its presence since 2017. The existence of a greenium implies that the issuer has obtained cheaper funding for its new bond compared with prevailing rates. The percentage of issues exhibiting a greenium can vary. According to data from Climate Bonds Initiative, and based on data samples, the percentage of green bonds exhibiting a greenium can vary from 20% (H1 2019) to 61% (H2 2020).

Despite the potential saving from greenium, there are other important advantages from issuing a labelled bond. There are more benefits beyond the potential savings that are greater drivers for issuing a green bond. The benefits are as follows:

- Broaden the investor base and offer new engagement opportunities
- Enhance reputation and visibility
- Strengthen internal integration
- Contribute to transition, risk management, and future-proofing the business.

### Bank finance

Global banks have made significant commitments to provide climate financing via the structuring of capital market instruments as well as via their own balance sheet. Our interviews have highlighted that some banks are indeed soliciting their clients to raise climate-aligned financing.

### A real opportunity

The low-carbon transition is an extraordinary opportunity to show leadership and steer a company successfully through the process and to examine the risks and opportunities associated with transition. And it is an opportunity to become a green or transition-leading company, as opposed to an issuer of green bonds. This could lead to a more sustainable (financial and non-financial) business and in turn to a lower cost of capital.

Finally, this is an opportunity to align the sustainable development of our society and the sustainable development of business. It requires courage and leadership.

**Fabrizio Palmucci, senior adviser Climate Bonds Initiative, founder and MD of Impactivise. Sean Hanafin is CEO, Silver Birch, and senior adviser, Climate Bonds Initiative**

## MAIN FINDINGS OF THE CLIMATE BONDS INITIATIVE RESEARCH INCLUDE:

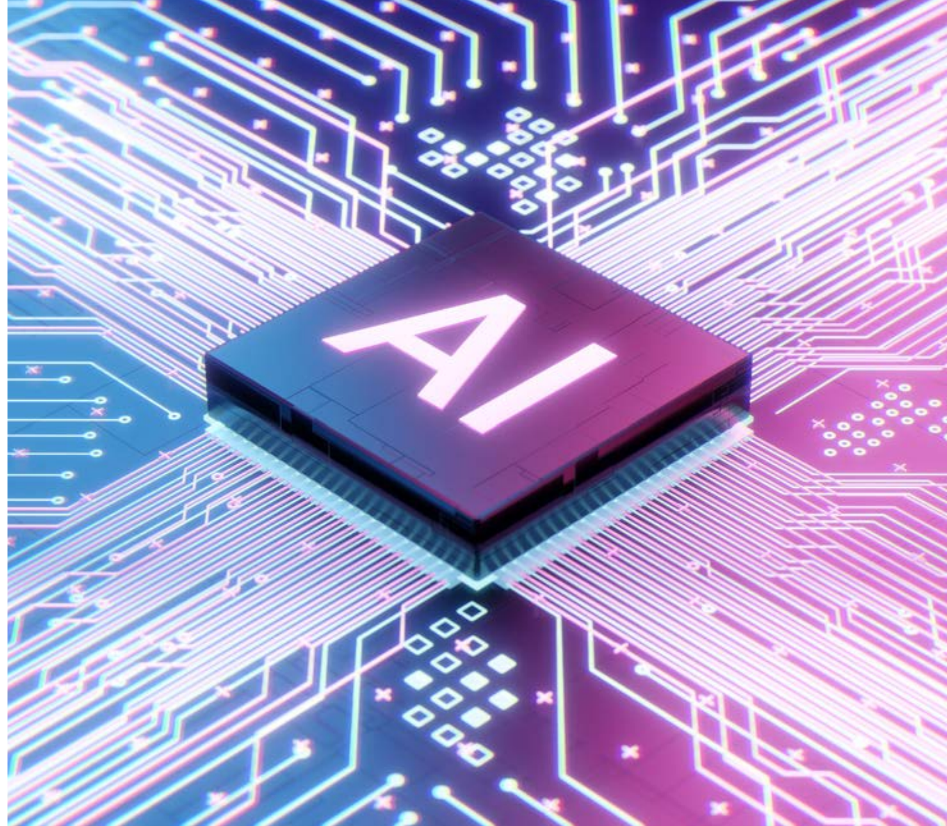
1 An early, well-planned low-carbon transition strategy can provide a competitive advantage (commercial, financial and regulatory) given that the low-carbon transition is an inevitable business reality for all sectors.

2 All climate-related investment and planning benefits from being underpinned by a business case (at the company's investment hurdle rate).

3 CFOs and their treasurers have a crucial role in driving climate information and action within the financial framework of a company and mainstreaming it throughout operations.

4 Investors, including bondholders, are being clearer and more vocal in their climate transition demands.

5 There is still work to be done in the financial ecosystem (investors, rating agencies and others) to fully understand a transition plan's credibility in different sectors and therefore give full benefit to early movers.




# GenAI is the incentive to develop skills

**As generative AI shakes up many industries, treasurers will need to be at the top of their game to take advantage of this transition, argues Robert Searle**

First, a question: this is not a ChatGPT-generated article, but would it have been better if it had been?

Now, another question: what do telephones, facsimile, email, smart phones, Google and many others like them have in common? At one point, they were just technological concepts that many of us feared, and some probably dismissed as unlikely to succeed. The latest buzzwords to add to this list of technological advancement are AI and, more recently, generative AI. As Goldman Sachs says: "GenAI could deliver a 7% boost in global GDP (nearly $7 trillion) while increasing productivity growth by 1.5% over the next decade or so."

It is probably helpful first to understand the difference between AI and generative AI (GenAI). In 2007, John McCarthy, a computer scientist at Stanford University, defined AI as "the science and engineering of making intelligent machines, especially intelligent computer programs. It is related to the similar task of using computers to understand human intelligence". George Lawton, of TechTarget, classifies GenAI as "a type of artificial intelligence technology that can produce various types of content, including text, imagery, audio and synthetic data".

The key difference between the two is that traditional AI systems are primarily used to analyse data and make predictions, while GenAI goes a step further by creating new data similar to its training data.

So, what are the opportunities arising from GenAI, the potential risks and its future in treasury?

If I had to pick where GenAI would be most relevant, it would be the ability to accurately forecast financials. The benefits of accurately being able to forecast would be tangible across both internal and external stakeholders. This ranges across credit, liquidity and operational risk, all of which sit right within the remit of treasury functions.

Having the ability to generate accurate forecasts should reduce operational errors, improve cash management and facilitate access to greater sources of capital. Better access to liquidity will then support areas that many businesses look to for their growth such as M&A. It is no secret that M&A is hard – studies show that 70-90% of acquisitions fail. However, support from treasury reducing the forecasting risk will mitigate management and shareholders' concerns.

Nothing is perfect and it is important to recognise some of the associated risks of GenAI, which, for a risk-averse person like me, are a lot easier to see. More AI will undoubtedly lead to lower people requirements, leading to a reduction in employees. While this could be a cause for concern, this is not a new phenomenon and overall employment numbers have been declining for many years. Nonetheless, increasing automation of roles leads to fewer errors and greater efficiencies, so the overall gains for corporates and the economy could be profound.

McKinsey estimates "the automation of individual work activities enabled by these technologies could provide the global economy with an annual productivity boost of 0.2 to 3.3% from 2023 to 2040, depending on the rate of automation adoption – with Generative AI contributing 0.1 to 0.6 percentage points of that growth". In particular, junior team members will undoubtedly be concerned about the need for their roles.

But GenAI also offers an incentive to members of the treasury profession at all levels to ensure that they continue to develop skills that will set them apart, because treasury will 100% be involved in the transition.

So, going back to the original question: would this article have been better written by GenAI? Who knows. Will GenAI make life better for treasurers? The answer to that is up to us.

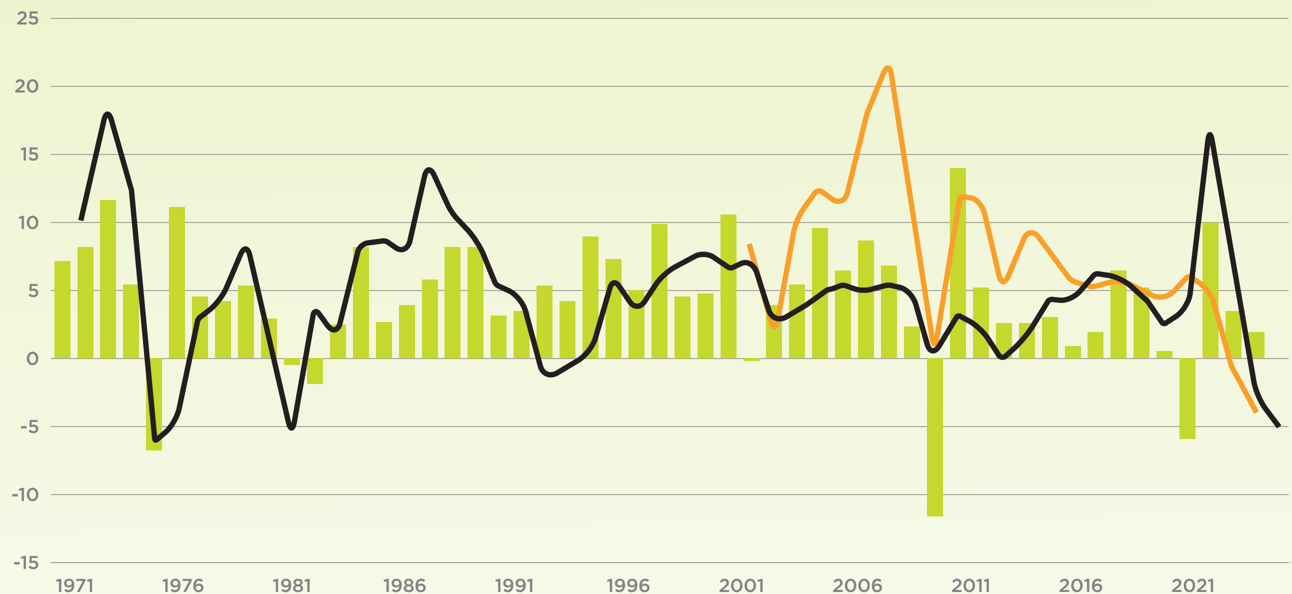
**"Having the ability to generate accurate forecasts should reduce operational errors and improve cash management..."**

**Robert Searle is chair of the ACT's Future Leaders in Treasury Group**

IN DETAIL:

# ‘Slowbalisation’ outlook for world goods trade

Global trading is heading towards recession as credit conditions could choke off trade financing




Source: Oxford Economics/Haver Analytics • * US/UK/EZ/Japan

After a brief upturn in world global trade in early spring 2023, Oxford Economics is predicting a shallow trade recession over the rest of 2023, with global goods trade falling 1.5%. The economics think-tank also found that world goods trade volumes fell at around a 2% annual rate in May-June with weakness most marked in Europe and parts of Asia.

A key downside risk is global liquidity. Oxford Economics says corporate broad money holdings in the major economies are dropping rapidly, implying considerable downside risks to global investment and trade in capital goods. Corporate money holdings have only fallen at the current speed twice in the past 50 years: in 1975 and 1981. The slump in 1975 was associated with a fall in world goods trade of more than 5%.

Credit conditions are also unfavourable for trade. As Oxford Economics says: “Central bank surveys have shown banks tightening credit standards over recent quarters and, in our view, the full impact in terms of downward pressure on consumer spending and investment has not yet been seen.”

In addition, the steep rise in dollar interest rates and the associated strong dollar may choke off vital trade financing. Around 80-90% of world trade relies on trade finance (such as trade credit, insurance, and guarantees). In this respect, it’s worrying that the value of dollar credit extended outside the US – a rough proxy for trade credit – is dropping at around a 4% annual pace, the fastest since the series began in the early 2000s.

In short, Oxford Economics forecasts a trend of ’slowbalisation’ in world goods trade over the longer term, with trade expanding at around the same pace as GDP – a big change from most of the post-war period when goods trade grew considerably faster than world GDP.

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# All systems go...

## With many companies having implemented a treasury management system, and more looking to do so in the near future, what lessons can be learnt?

The treasury function is called upon to advise and support an increasing number of strategic decisions. Automating the treasury function through a treasury management system (TMS) offers a streamlined reporting function, which – when integrated with other systems in the organisation – provides quicker and more accurate reporting.

## Alexander Murawski,

### Treasury operations manager, Marks & Spencer

I did not necessarily follow the well-established pathways into the treasury profession but found my home in the field after a variety of finance roles, first at Esso Serve Europe and now at major UK retailer Marks & Spencer. My broad responsibilities range from overseeing group cash and liquidity, funding, risk management and reporting, treasury accounting and, last but not least, systems and technology.

Following a departmental health-check review in 2019, M&S decided to replace its legacy in-house hosted treasury system and upgrade to a cloud-based platform from a TMS specialist. The goal was to enable the department to deliver on protecting value for the business through effectively controlled and standardised processes, creating value through effective partnering and enhancing value through data-driven decision-making.

Our ambition was to implement a system fully connected to our enterprise resource planning (ERP) for accounting and forecasting purposes, our banking portals for payment instructions and statement reconciliations, and our trading platform for derivative execution and confirmations, while also managing market data and (risk) reporting.

Deciding which platform to choose was not just down to how well the teams' functional requirements could be met but also to system security, ongoing support by TMS experts and cost.

The key to successful implementation was working in partnership with our provider on a detailed understanding of our business processes and agreeing well-defined requirements and scope, while considering all stakeholder needs – marrying treasury, technology and business requirements.

Key to meeting the project's objectives were the availability of the right resources and expertise, and setting clear expectations around delivery time frames.

Of course, the control design had to be appropriate, particularly as the level of automation increases, but I would also say to be careful with customisation. This can bake in rigidity and cost to the solution. Allow plenty of time for training and involve the team, backfilling their roles if necessary. There is no point in the system experts walking out of the door on day one of operations.

The choice of a SaaS (software-as-a-service) solution was driven by a desire to embed a continuous improvement culture, tapping into periodic upgrades to keep the department developing and adopting solutions to future challenges and industry changes such as ISO 20022 file formats for our banking connectivity. The onset of the pandemic soon validated our decision, and the platform enabled us to adapt to remote working from day one, allowing the team to support the business through this challenging period for UK retail.

The team now uses the FIS Integrity TMS as the main tool in daily operations from cash forecasting to the recording of all foreign exchange trades, external bank debt, bonds and uncommitted facilities and other derivatives like interest rate swaps, through to daily and periodic accounting and reporting.

We are constantly looking to enhance our usage to meet the business' needs, most recently in adopting a new multi-entity banking pooling and in-house banking structure as well as expanding the range of accounting provided by the system.

We are now thinking about the way in which AI will change treasury and its jobs. What skills do we need to exploit the technology and to what extent is it sensible to adopt it in areas such as enhanced cash forecasting or hedging strategies?

## Sydney Wechuli

### Head of treasury Kenya, Spektra Inc

My role in Spektra Inc is Head of Treasury Kenya. I've been in the role for more than a year now, having joined from DPO Group. Both are online payment service providers. It's a role that encompasses cash and liquidity management, FX management and reporting.

One of the exciting initiatives that Spektra Inc is currently pioneering is an application that will enable cross-border payments throughout Africa – if I'm in Kenya, I can send money to friends in Nigeria so that they can draw the equivalent money in local currency. It is a unified platform for people throughout Africa to send payments. It really is at the cutting edge of payments on the continent, and I am really enthused to be part of this evolution.

The role is also an advisory one, as I help the company on the structuring of its products, providing profitability analyses. It is multifaceted, since in treasury you can see the whole company dynamic and help the company achieve its goals.

We are at the early stages of our TMS journey and are currently going through a process of determining which TMS system is best for us. We have primarily focused on ones that are available in Africa and will fully integrate into our ERP, as this helps to keep the data unified.

We are also looking for a system that will provide daily cash visibility and help our ability to forecast and optimise treasury transactions. An integrated system offers lean and efficient treasury features, and having a holistic view helps us in our decisions.

Looking to the future and thinking about 'Stage 2' implementations, we plan to connect bank APIs to give us a holistic view of our bank balances across the group. So, a key factor in our decision will be to choose a TMS that's scalable and that can handle increased data volumes. A cloud-based TMS will also offer better security and cost effectiveness.

Some dos and don'ts:

- Clearly define the objectives of your TMS implementation to ensure alignment with your organisation's objectives.
- Engage stakeholders at an early stage to gather input and ensure all concerns are addressed.
- Evaluate vendors based on factors like functionality, scalability, support, and cost. Choose a reputable vendor with a proven track record.
- Don't underestimate the project size – TMS implementation is complex and can take quite some time.
- Don't forget about training – invest in sufficient training for users or it will affect the output.
- Don't neglect data accuracy, quality and security.

## Matt Hook

### Treasury systems and process manager, IHG Hotels & Resorts

I work for IHG Hotels & Resorts, which is one of the world's leading hotel companies. We have 18 brands including Holiday Inn, InterContinental, Crowne Plaza and Kimpton.

My role was created around 18 months ago following the decision to move away from using a treasury module within our ERP system to a full TMS. I am based in the UK, along with the global treasury and the financial reporting teams. My primary role is the administration and management of our TMS. The work is varied and ranges from the system admin of core data and security to the set up of new banks and jurisdictions with all the associated connectivity and testing, audits, payment projects and working with our providers technical support team on solving issues and implementing system improvements.

I have worked at IHG for over nine years – I joined the team just after the point of 'go live' so there was (and still is) work to do on optimising the way we use the system. It has been a great way to learn the system – resolving issues has required me to investigate different areas and work with the technical support team. We use our system as a payment hub (with integration to our ERP, Peoplesoft) and a TMS including treasury accounting, deals, in-house banking and reporting.

We do not plan to implement any further systems – the focus is more on current TMS optimisation and ensuring it's fit for purpose and that we are making best use of the modules. It's also becoming easier to get different systems working together and it's not always the right solution to have one system doing everything. We concentrate on finding out what works for us as a business and our own specific requirements. We have looked at APIs and I continue to be interested in the development but it's not a focus for us right now.

There are some fairly obvious dos and don'ts:

- Do your research really well, look at what the offering is now along with pipeline improvements, and speak to other corporates, first-hand experience is the best thing to draw on.
- Think about what your business specifically needs as we all have operational nuances.
- Don't be drawn in by the 'shiny' add-ons that you don't need.
- Be very clear in your requirements, document everything and work with your chosen supplier to deliver your plan to the agreed timelines.
- Once you have chosen a system and got it implemented, find other corporates using it – connecting with others is useful since you find common issues and can share best practice.

> "Do your research really well... and speak to other corporates, first-hand experience is the best thing to draw on"

AI will play a larger role in all aspects of life but this will certainly apply to finance and treasury, too. In the Business Service Centre, they have been using some robotic process automation (RPA) for basic functions like payment allocations and there is work ongoing to expand this.

Like many businesses, we're looking at opportunities to create efficiencies and there are lots of solutions in the market. It's about determining what is the best solution for us and how we can create efficiencies in our processes and be more confident of an accurate forecast.

## Vineet Gupta

### Group treasury manager, Al Dahra

Having a TMS is not about being technologically advanced but about being able to keep pace with the rest of the world. When I joined Al Dahra in 2020, all treasury activities were based on Excel – with more than 30 subsidiaries in 13 countries across four time zones, collating group cash positions from more than 200 bank accounts was itself a task, let alone the visibility on utilisation and available headroom under various facilities, exposure reporting and other treasury KPIs.

Hence TMS implementation was a no-brainer. The idea was not just to bring in efficiencies in current processes but also to avoid any human error in collating the information. Having information available in a TMS also reduced the dependencies to get the required information as a user can directly access the information. Auto circulation of reports was also possible.

We use the TMS as a core system encompassing all treasury activity, be it cash, debt (both external and inter-company) or risk management, electronic payment, accounting, integration with ERP internally and with banks externally, generating certain reports including cashflow forecasts, exposures vs hedges and weighted average cost of debt.

We use Power BI along with the TMS to give us more flexibility in reporting. One good example is how we complete our group cash position. Although we were able to achieve 96% cash visibility, 4% was still outside the TMS, but with the use of Power BI we were able to combine the 4% information from outside with the other 96% to achieve a 100% group cash position.

Considering the geographical diversity of our organisation, we have divided the project in four phases and aim to achieve full implementation by end of 2023. The next phase is to develop cashflow forecasting (other than treasury flows), in-house banking, payment factory, exposure reporting, and derivative portfolio, hedge accounting, and so on. We are also getting our own BIC to perform electronic payments, which would take away the hassle of managing multiple online banking portal tokens and create one window to approve payment.

Some dos and don'ts:

- Analyse requirements – and keep in mind possible future needs.
- Involve stakeholders from the start.
- Prepare scenarios specific to your organisation.
- Don't choose one mammoth system – integration is easier than managing one huge structure.
- Don't set over-ambitious timelines – a good implementation takes time.
- Don't break the momentum – regular progress updates will keep up the pace and everyone will remain engaged.

# The view from: **investor relations**

There are many common goals between in-house investor relations officers and their treasury team counterparts, but they can often operate in silos. Ross Hawley, deputy chair of the Investor Relations Society and head of investor relations at Redde Northgate plc, and Angela Catlin, head of investor relations at The Co-operative Bank, give their view

**Ross Hawley:** When presenting on Investor Relations Society courses about 'what is the role of an IRO?' the list we use is really quite long: C-suite gatekeeper, communicator, bag carrier, educator, stakeholder management, market expectations management, scriptwriter.

These all form part of the life of a busy investor relations officer. For corporate treasurers with an active debt programme, ratings discussions and refinancing exercises, the list is probably not too dissimilar. Where things are working well, it is where the two teams co-ordinate and are able to ensure both talk with one voice.

There is significant benefit from greater coherence across all external stakeholders. With new challenges around ESG and greater regulatory scrutiny, the need to work together and communicate with a single voice is ever greater. Together with Angela Catlin, recently appointed head of investor relations at Co-op bank, we consider some aspects of the interactions and opportunities for IR and treasury teams.

### What are the differences between debt IR and equity IR?

**RH:** From the viewpoint of an IRO, my perception is that the debt/treasury conversations have a greater focus on downside risks, cash generation, and some of the more near-term fluctuations in business operations and working capital. Typically, debt providers also have access to management accounts and are subject to NDAs. They have a greater understanding of the actual near-term business performance and plans than any equity shareholder, where the rules of managing price-sensitive information overlay every conversation.

**Angela Catlin:** When working previously as an equity-focused IRO at a major bank, we had the key headlines as part of our narrative, but had a separate debt IR team that naturally had a bigger focus on treasury topics such as liquidity, funding and issuance plans. Moving to a newly formed debt-focused IR team, I will use my equity experience in delivering a well-rounded programme, as the framework will be similar while the language will be that of the debt capital markets.

**RH:** Equity investors and research analysts have a time horizon that can be quite short, but the hope is always for that 'three to five year plus' potential holder who is supportive of management through business cycles and macro events. Giving a sense to the medium-term trajectory, aspirations and potential opportunities and risks is essential within the IRO's messaging. So is the ability to answer just about any

> **"Where things work well, it is where the treasury and investor relations teams co-ordinate and talk with one voice"**
>
> ROSS HAWLEY

question on markets, operations and financial statements.

A lot of this will come from having spent significantly more time sitting alongside the CEO or divisional management in front of investors, hearing those questions being answered many times on a roadshow. Through this, the IRO has a large memory bank of anecdotes and context to recycle and develop into investment cases, slide decks and use in IR meetings and phone calls through the year.

## Where can IROs support debt and treasury activities?

**AC:** I am now leading a debt-focused IR programme, which is separate to our treasury team. Many of the same principles apply and co-ordination over issuance timetables and ratings agency engagement is critical. I will lead on the business strategy but look to treasury team members for technical topics. Having the combination out on the road works really well for us, and helps share learning and profile. Ratings agency discussions, in particular, are ones where quality feedback is critical to both treasury and IR.

**RH:** I have worked with a number of top-quality treasurers who have fantastic relationships with their lending bank counterparts, and long-standing experience of the company. But unless they have significant access to divisional and C-suite management in the run up to financial results, it is hard from them to have the key messages and data points naturally at their fingertips. This is where cross-function collaboration can greatly aid the corporate messaging.

IROs are also very familiar with corporate governance issues and other elements that form part of a ratings agency checklist. On a number of occasions, I have also stepped in to edit or write the business commentary in advance of a refinancing or debt prospectus – something that is second nature to an IRO, but not that easy for a treasurer trying to corral debt advisers, arrangers and a phalanx of syndicate participants all at the same time, often on a much faster timetable than an equity raise.

Angela Catlin

## What about ESG and green financing?

**RH:** The increasing prominence of ESG investors, questionnaires, regulations and ratings agencies has been a characteristic that has dominated IRO conversations with peers and at IR Society conferences and networking events for a number of years now. For some companies, it feels like yet more reporting and information to assimilate, adding to the already long list. But often, there is the chance to talk about the opportunities that the business can take to harness the growing activities that corporate net zero offers.

At my company, Redde Northgate, we can play a key role in enabling the energy transition for UK and Spain plc's commercial vehicle fleets, providing a comprehensive suite of services needed to transition to electric vehicles and charging infrastructure. Building a narrative setting out the opportunites we have before us, as the EV transition starts to gain traction, is equally relevant to the treasury team and its stakeholders – who can be reassured that the transition from our more than 100,000-plus diesel LCV fleet brings many new opportunities.

Green financing has generated interest from a number of companies in recent years, and from many more bankers excited about a new asset class for diversifying exposure. However, there are reasons for corporates to be cautious of this financing route. They should ensure the commitments made in order to achieve the interest rate benefit are truly aligned with the strategy and purpose of the business.

**AC:** We already have some green-related financing (green, social and sustainability) and have a robust framework for managing green issuance proceeds; this helps with transparency to investors, and are of particular industry focus at present.

## What does the future look like for investor relations' relationship with treasury?

**RH:** The focus of an IR function is typically 50:50 internal and external – with key internal relationships including company secretarial and treasury. These relationships prosper with proactive sharing of information and invitations to participate in each other's roadshows and transactions. Here, the company gains hugely both in times of growth but also crucially in times of volatility or stress, where a proper understanding of all aspects of a corporate's funding becomes time-critical and can be crucial to survival.

Ross Hawley

**Ross Hawley** is head of investor relations at Redde Northgate plc. **Angela Catlin** is head of investor relations at The Co-operative Bank

# Fast, not furious: towards a better payment experience

Embedded payments are helping businesses put the customer back into customer experience

We have seen a paradigm shift in the payments industry – where the payment has become woven into the fabric of the customer journey, not separated from it. This means that the customer can focus on the product or service, not their payment. While some businesses have deeply entrenched payments within their customer journeys – think of taxi fares that are paid through the same app that hailed the taxi itself – others are now discovering new and innovative ways to make the processing of payments fast, seamless, and beneficial to all parties. What's clear across the board, however, is that these solutions are putting the customer at the epicentre of the payment experience.

One key part of this revolution is the embedded payment. Put simply, embedded payments allow businesses to integrate the payment process into their own platform, eliminating the need for their customers to embark on a complicated user journey to a separate payment gateway. As a result, payment becomes just a natural part of the customer journey, providing a smooth and streamlined experience.

## An embedded future

Of course, this benefits the customer by helping them easily complete their transaction, and, with increasing digital payment preferences, this is expected. Sixty per cent of the global population is predicted to use digital wallets by 2026, with embedded payments looking set to play a pivotal role in the future of the customer payment experience.

In addition, embedded payments carry significant benefits for businesses, including their treasury functions, by offering greater clarity and control over transactions and potentially lowering transaction costs compared with card payments.

From an efficiency perspective, Faster Payments, which underpin the use of embedded payments, have the power to reduce payment times to just a few seconds, improving cash flow and boosting access to working capital. There is also a commercial benefit from a sales perspective – research has shown that if a consumer has to re-enter payment details, 30% will abandon their shopping cart. A more cohesive payment experience could result in a higher number of completed transactions and this means reducing leakage – smooth payment processes represent a 'free' sales upside for no additional marketing spend.

Since embedded payments can be faster for the customer, and more efficient and effective for businesses, the transition towards mass adoption is highly likely to accelerate over the next decade. Market research firm IDC estimates that by 2030, 74% of global digital consumer payments will be conducted via platforms owned by non-financial institutions. One survey found that while 4% of businesses currently offer embedded payments, 83% have plans to implement them in the next five years.

Lloyds Bank's own data supports this – we've seen a 19.5% increase in the average number of monthly transactions in the first half of 2023 using three of our core Application Programming Interface (API) solutions, compared with the first half of 2022. We've also witnessed a 58% increase in the number of active clients using the three solutions over the same period.

## Looking under the bonnet

Benefits aside, how do frictionless payments actually work? The engine of embedded payments is API technology. In 2018, the implementation of Open Banking legislation, enabling banks and other financial institutions to share data securely with third parties, paved the way for the adoption of API technology to allow non-financial institutions to embed payment processes into their own platforms. APIs allow the customer's financial information to flow securely between the platform and relevant banks to make the payment process easy, fast and frictionless.

At Lloyds Bank, our embedded payment proposition is powered by a suite of six API-based solutions. Since our transactional solutions use the Faster Payments service, any payments made using our solutions are completed almost instantly.

Explore Lloyds Bank's range of Embedded Payment solutions and find out how we can help to drive your digital transformation while keeping your customers at the heart of the process.

LLOYDS BANK

### Achieving payment invisibility

The best payment experience is the one that is the fastest, safest and least obtrusive, so consider where your payment process is the most visible to your customers. Whether you need to process payments at scale, digitise cumbersome processes, enhance security and mitigate risk, reconcile, make and take real-time payments, or pinpoint exactly when funds have entered your business account, our embedded payment solutions can make your payment process smooth, fast and efficient.

### Charting the rise of embedded payments

As digital transformation continues to surge through organisations, technology-enabled solutions will play an increasingly important role in payment processes and, ultimately, the customer journey. Considering that embedded payments are already used by many businesses across different sectors, now is the time to be investing in them to maximise their potential for tomorrow.

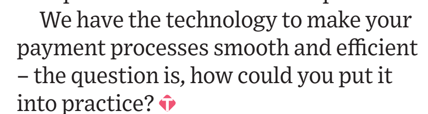
We expect to see continued growth; not only in terms of adoption of embedded payments, but also in terms of innovation, especially when it comes to the breadth of use cases found for them.

Also on the horizon is an evolution in terms of the range of solutions available, such as account-to-account payments using either QR codes or through a link that can be sent via email or by SMS. In a nutshell, embedded payments will play a crucial role as the industry strives to make payments even quicker, simpler and safer.

While it will be some time before payments powered by APIs reach the ubiquity of card payments, the continued growth in adoption demonstrates an increased focus on the customer-centric payment experience, with businesses recognising that embedded payments make it easier for the customer to do business with them and, as a result, promote repeat custom.

In short, embedded payment solutions mean that financial institutions such as Lloyds Bank are working at the forefront of the paradigm shift towards fast, flexible and tailored payment processes that prioritise the customer experience.

We have the technology to make your payment processes smooth and efficient – the question is, how could you put it into practice?



**Tim Pycecroft, managing director, head of corporate cash management & payment solutions, Lloyds Bank Corporate & Institutional Banking**

### EMBEDDED PAYMENTS IN ACTION

The University of Salford and online trading service BullionVault are just two organisations that have embraced Lloyds Bank's embedded payment solutions to improve their payment processes – each in distinctly different ways.

With fraud levels increasing, the University of Salford worked with Lloyds Bank to introduce new methods to enhance fraud controls and mitigate fraud risks, supporting its team when they make payments to students, prospective students, suppliers and other vendors.

In BullionVault's case, precious metals markets can move quickly and the prices of commodities such as gold, silver, platinum and palladium are constantly fluctuating. So, when it comes to buying and selling bullion, the speed and accuracy of payment information is crucial in facilitating business and providing investors with peace of mind.

# What is the future of treasury tech in the Middle East and beyond?

In two articles, commentators explore the opportunities for treasurers as they review their technology needs and ask what lies on the horizon

## The view from the Middle East

In the late 2000s, if you mentioned the Middle East to somebody in Silicon Valley, the image that would come to their mind would be of an oasis in the desert with camels, as the region was considered a laggard in technology. Many journalists would write long articles about the technology gap discrepancies between Asia and the Middle East.

But fast forward to 2023 and now, when emerging markets are mentioned, the talk is not just of China and India innovating with payment technologies but, in the same breath we speak about Israeli start-ups, the UAE blockchain hub and Saudi Arabia's NEOM city development. There has been a remarkable change that has been brought about by sustained government efforts to tap into technology in developed countries.

The Global Innovation Index (GII), published by the World Intellectual Property Organization (WIPO) for the United Nations shows that between 2011 and 2022, UAE moved from a ranking of 34 to 31 while the Kingdom of Saudi Arabia went from 54 to 51.

Now, with the governments' digitisation initiatives accelerating, IT hardware, networking and cloud infrastructure in place, the last five years have also seen significant technology investments by local and regional banks to stay relevant.

This is paying rich dividends, reflected in the 2023 winners of Global Finance awards, where regional banks could win while competing with global banks on cash management efficiency through MT940 SWIFT messaging, zero-balance accounts (ZBAs), cash pooling and seamless money market investments as standard product features incorporated in their digital offerings.

## Opportunity

This now becomes an opportune moment for corporate treasuries who are always looking to use technology for productivity gains. While reports suggest the global treasury software market has been growing at a 6.5% compound annual growth rate, in the Middle East Africa region it has been lower, at 2.5%. This makes the environment now very fertile for digital transformation.

Many Middle East treasurers have technology implementation and/or upgrades at the top of their minds, so their teams are busy setting the roadmap of vendor selection by comparing traditional treasury management system (TMS) providers with new cloud-based solution providers who have set up offices in Dubai, Abu Dhabi and now in Riyadh.

The market is also witnessing a refreshing change where TMS vendors are looking to add product features relevant for the Middle East, such as regulatory compliance, accounts receivable and trade finance solutions through fintech partnerships and bank account management.

Crypto, blockchain, ISO 20022 and SWIFT-related challenges seemed to dominate the conversations six months ago, but these are now shifting to traditional treasury management tasks like cash forecasting and counterparty risk because of the higher interest rate environment and risk flashpoints emerging from the US regional banks crisis. In 2022, the Middle East equity market turned out to be a sweet spot for the global IPO market with record IPOs (51 deals for $22bn) and while 2023 is trending lower, the IPO momentum remained active.

CFOs have woken up to the fact that S&P is forecasting $5tn of debt refinancing need in the US and expects turbulence ahead, so they are demanding treasurers generate much longer-term cash forecasts together with sensitivity analyses. Treasurers in turn look towards their much-vaunted TMS that have promised linear regression and index trend model forecasting, but are discovering that, unfortunately, many of these promised features are now either obsolete or cannot generate the necessary usable reports as the organisation's data islands are not connected.

Many TMS vendors have realised that cash forecasting is the topical need, which has a strong trajectory for growth as digital transformation gathers steam in finance. So they are positioning software-as-a-service (SaaS) solutions for TMS, such as those hosted in the cloud, which can allow corporates to easily extract historical bank statement data to train on cloud providers' algorithmic models for more reliable forecasts.

However, leveraging machine learning for cash forecasting in the Middle East is still at a very early stage. With their teams being generalists in finance and accounting, corporate treasurers face the daunting dual challenge of getting certified in treasury and also learning specialist skills in data science.

Thus, organisations turn to TMS vendor resources and consultants to solve immediate needs. But, training machine learning models need internal team engagement and so the true potential of technology investments made by the organisation can only be realised when it also makes an investment in its people.

## Artificial intelligence

The most exciting topic of conversation with treasurers is always around AI. With the increasing complexity of systems and data visualisation, there is a strong demand for chatbots from teams in Middle East treasury centres. Even though large language models (LLMs) and ChatGPT have taken the world by storm, no working example has yet been showcased by vendors.

So, while we are in the early stages of technology release, there is already a lot of potential demand as treasurers await with bated breath the advent of 'Treasury AI'. This could help them answer all their questions about which bank charges the most fees or which debt exposure is near to breaching its covenants so that the value of a centralised treasury can finally shine bright.

**Rahul Daswani FCT is the founder of LHD Research and a former Microsoft executive**

# TOWARDS A TRIPLE-A GLOBAL VISION

The future of treasury technology is visual, automated and intelligent data delivered by the widespread adoption of AI, APIs and analytics. The 'three As', as we sometimes refer to them, will enable treasurers to harness and regain control of the massive amounts of data that finance teams are exposed to every day. These innovative tools will turn that data into actionable insight, offering treasury teams the ability to execute data-driven decisions.

To understand the future opportunity, one needs to assess the impact that AI, APIs and analytics have on treasury.

Artificial intelligence is most often talked about as a disruptive technology for good reason. The rise of AI is largely because of ChatGPT and the popularity of large language models (LLMs). With ChatGPT's introduction in late 2022, the mystery of AI evaporated – the black box of machine learning algorithms was replaced with a tool that anyone could understand and use. This has put AI within reach of treasury teams.

In the near term, treasury teams are assessing how to leverage generative AI tools like ChatGPT for greater automation, asking the AI technology to write a payment policy, to structure a multilateral netting program, or asking treasury software to look for data within a report or dashboard.

AI can also be used to improve cash forecasting data as well as detect anomalous payments that don't align with historical patterns or current payment policies. And there are more use cases to come, where we will see AI offer recommendations and advice for hedging, financing, and how to mobilise liquidity, intercompany and internationally.

Ultimately, AI for treasury will be a fully automated experience, where we only have to ask our software questions such as "How do we meet our free cashflow target next quarter?" and AI will find the answer.

But to unleash the full potential of AI, teams must also embrace APIs and analytics to ensure they leverage data to its fullest.

## Unified and secure

APIs unify data enterprise-wide, connecting ERPs, internal systems, external apps, and banking platforms together. They operate in real-time, and also deliver a reliable and secure data journey that customised file transfer routines may not consistently offer.

In many cases, APIs integrate systems that might not otherwise have been connected. The future of treasury technology relies upon APIs to deliver the data, to create a treasury data repository from which AI can be trained and learn.

Analytics are the final piece of the data puzzle. Often delivered through business intelligence tools such as Qlik, Tableau and PowerBI, analytics organise and visualise data to help us find meaning in the terabytes of information facing teams. While technically not new, analytics technology tools remain in their infancy for treasury teams who perceive such dashboards as nicer-looking reports than the ones their TMS deliver on their own. More strategically, analytics empower teams with the ability to understand and solve issues that will successfully drive confidence and reliability in data projections, such as cash and liquidity forecasting.

Leveraging data is the future of treasury. These technologies will be fully embedded within our treasury platforms for a fully immersive treasury data experience. And the best part? The future isn't that far away.

**Bob Stark is global head of market strategy at Kyriba**

**"Innovative tools will turn that data into actionable insight, offering the ability to execute data-driven decisions"**

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# Finding the alternative financing route

Traditional sources of finance might not be the best way to go as companies can turn to different providers to support their growth plans, according to George Fieldhouse

**BANKING RELATIONSHIPS**

The business finance market is undergoing constant evolution, offering businesses of all shapes and sizes a wider range of financing options. Business models are under pressure because of rising input costs, higher interest rates and reduced consumer confidence, resulting in some sectors experiencing reduced top line sales and a significant squeeze on margins. As the requirements for growth, or for survival, increase and become more complex, so does the solution that a business needs from its finance provider.

In a recent poll of 605 mid-size business leaders, Grant Thornton found that, of those who need to raise additional funds in the next year, three-quarters (74%) said that the current terms agreed with their lender are under pressure, while a quarter said that accessing finance has become more challenging over the past 12 months. Consequently, there is an increasing number of business borrowers who find themselves in need of further capital but who are unable to achieve attractive funding or terms with their existing bank lenders.

Alongside the rising cost of traditional bank finance, banks have become more cautious when lending to such businesses. This is particularly true for companies in sectors considered cyclical or volatile, such as manufacturing, hospitality, retail, and real estate. Mid-sized businesses often need financing that is flexible and tailored to their needs, which is not always possible with a traditional bank loan. The desire for strategic partnerships is also a factor as these businesses are increasingly looking for investors who can not only provide them with capital, but other value-added factors such as expertise and networks.

There are many different forms of alternative finance available: crowdfunding, peer-to-peer lending, venture capital, angel investment, revenue based-financing to name but a few – but there are three areas in which we are seeing increasing interest from our clients: debt funds, private equity and hybrid capital.

**"Debt funds offer more flexibility in terms of financing than traditional banking sources regarding leverage and other terms"**

## Debt funds

The debt fund market continues to evolve with new participants and investment strategies. For example, Kartesia, the European debt fund manager, launched the Kartesia Impact Fund I in early 2022, to focus on positive sustainability linked investing. In addition, private equity-focused managers have brought to market several new debt-led strategies, including Palatine, which launched a new Growth Credit Fund to support fast-growing venture capital-backed tech-focused businesses based beyond London and South East England.

Debt funds offer more flexibility in terms of financing than traditional banking sources regarding leverage and other terms, can often move more quickly and provide significant capital for follow-on funding.

Debt financing (across both banks and funds) has different challenges to equity due to cash debt service requirements, stricter financial covenants and because debt holders have a higher priority claim on the assets of the businesses than equity holders, making them first in line for any payouts.

## Private equity

Private equity (PE) has been a vital funder in the mid-market investment space for the past 20 years. Generally, PE firms like to back dynamic management teams of established, profitable businesses and use their equity to provide an element of value realisation and help accelerate growth.

Mirroring the trends in the wider economy, the past 18 months has seen an increasing focus on business-to-business assets, particularly companies that are innovating and developing new solutions to solve a particular problem in sectors as diverse as healthcare, education or consumer finance.

One great example of the deals we've worked on in this space is LDC's investment in Horsefly Ltd, an artificial intelligence-based HR analytics platform, which secured significant investment earlier this year to support its international growth.

Private equity won't be a good fit for every business. Investors will have a say in the forward strategy, attend board meetings, and expect regular reporting of data, so for an entrepreneur who is used to total control, this can be a difficult transition. Most PE firms undertake rigorous due diligence before investing to ensure they are backing the right people, as well as the right business.

Private equity firms will look at deploying several levers to create value during their investment. These could include supporting an investment in new service lines, driving operational efficiencies, or funding geographical expansion plans. Buy and build, through strategic acquisitions, is another key area of value creation, and can be a very effective tactic in enabling ambitious businesses to accelerate growth.

## Hybrid capital

Hybrid capital is an increasingly popular financing structure. It can combine elements of both debt and equity and can offer benefits to issuers that aren't provided by debt or equity alone.

An example from our client experience of how structured capital can be used effectively is Soho Square Capital's investment in Oliver James, a rapidly growing international recruitment and consulting provider. Announced in January 2022, the investment saw Soho Square take a minority stake in the business and is enabling the founders of Oliver James to accelerate their ambitious international expansion plans, with support and expertise from the Soho Square team.

The advantages of debt translate to the disadvantages of equity, and vice versa, but hybrid capital can achieve a balance. Hybrid financing offers access to a new pool of capital, with borrowers benefiting from a diversification of their funding base. Because of the nature of hybrid capital, such funds have different risk profiles and can often come up with a solution where mainstream PE and traditional banks cannot get comfortable with the business model or the market.

It also allows investment deeper into the capital structure than lenders would otherwise get to, supporting growth capital, but also where borrowers' debt requirements (for example in turnaround situations) are greater than can be achieved in the bank or debt fund market.

Hybrid capital can also be a useful stepping stone to raising private equity – providing the capital to allow management to deliver expected growth or fund a return to shareholders and so bridging the gap until management believes it can achieve the right valuation in the market. The prospect of future private equity investment provides a clear exit strategy for hybrid capital providers and can encourage them to offer more attractive funding terms.

Hybrid capital also allows businesses to improve governance and reporting requirements ahead of a PE deal and get used to additional presence and challenge within a board.

Overall, a wider range and availability of alternative finance solutions is positive for the market – more options create competition and encourage lenders to improve the scale and flexibility of their products. But it's not without risk. Making an informed decision about which provider best suits your business is vital, as is understanding the wide range of options available.

**George Fieldhouse**, corporate finance debt advisory partner at Grant Thornton UK

# Sureties to play prominent role in rapidly evolving loan market

The surety market has significant capacity available to support corporate treasurers with their unfunded requirements

BANKING RELATIONSHIPS

The latest Basel rules will have a significant influence over the capital treatment of banks. One of the products significantly impacted will be performance obligations, which will see risk-weighted capital increase from the current 20% or 25% to 50%. The consequence of this will likely be higher pricing or exiting relationships.

In contrast, the capital calculation for the same product under Solvency II is less punitive. Borrowers are thus turning to the surety market to replace the capacity that had previously been provided by banks.

## Risk participation

Borrowers may be unaware of the strong history of collaboration that exists between the surety market and the bank market. Banks have been increasingly turning to the surety market to provide risk mitigation through master risk participation agreements either because of single borrower concentration risk, sector exposure or overall balance sheet management.

Risk participation agreements can be either silent or disclosed to the borrower but the majority are closed on a silent basis hence borrowers are largely unaware of surety support. The use of insurance capacity is now firmly viewed by banks as a distribution tool, part of their overall portfolio management or balance sheet optimisation objectives.

Treasurers should therefore expect direct dialogue with insurers, in consultation with banks, as the surety market increases its support following the implementation of Basel IV.

## Direct participants

At the same time, borrower contingent liability financing requirements across global infrastructure and energy markets (especially in the transition economy and renewables) continue to grow significantly. Bank capacity constraints, Basel IV and growth in infrastructure development have created a demand for surety-related products at scale.

Treasurers facing liquidity pressure because of reduced bank capacity can turn to the surety market to supply lines for a vast array of unfunded obligations such as performance guarantees and standby letters of credit, thus freeing up bank capacity towards core funded lending activities. The additional benefit to those banks facing balance sheet pressure is the ability to act as fronting banks (see box), thereby retaining a strategic relationship with the underlying corporate borrower, but with the sureties taking obligor risk and banks taking surety risk.

Increasingly, sureties are willing to sit alongside banks in larger syndicated facilities providing a complementary product offering. The banks would continue to be the primary source of funded obligations while the surety market would offer a secondary layer of unfunded participation. Indeed, the surety market has already become strategically relevant to borrowers with the ability to support capacity in excess of $500m in a syndicated facility.

The need for greater collaboration between corporates, banks and the surety market will be key to remaining competitive in the changing regulatory and challenging macroeconomic environment. In addition to typical contractual performance guarantees, the surety market has also been supporting the following instruments:

- Margin call standby letter of credit (SBLC)
- Payment SBLC
- Deferred equity SBLC
- Grid connection guarantees
- Decommission guarantees
- Pension deficit guarantees
- Reclamation guarantees
- Performance guarantees
- Litigation and tax guarantees.

**Warren Withfield is head of syndications, surety at Howden CAP. He can be contacted at Warren.Withfield@howdengroup.com**

## FRONTING IN ACTION: CASE STUDY FOR A SYNDICATED SBLC FACILITY WITH FRONTING BANK

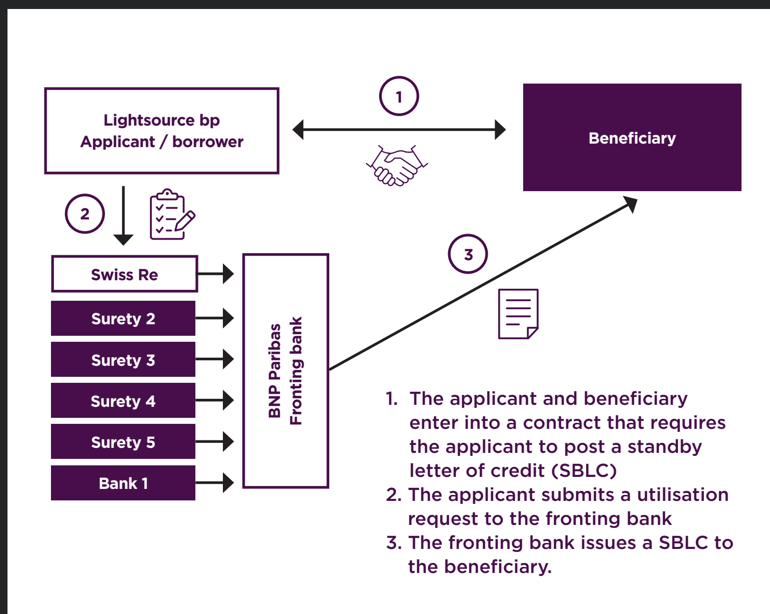
Howden CAP recently collaborated with BNP Paribas to arrange a dual tranche syndicated facility for Lightsource bp, where BNP Paribas participated in the funded tranche and Howden arranged the unfunded portion with BNP Paribas as fronting bank and facility agent. The unfunded portion raised a significant amount of liquidity combining appetite from both the surety market and bank market.

In a fronting structure, the fronting bank substitutes the applicant's credit rating when issuing a SBLC so that in the event of a compliant demand, it is the counterparty that will make payment. However, in addition to having recourse to the applicant, the fronting bank will have full credit recourse to the syndicate of sureties and banks in the event the applicant fails to reimburse the fronting bank. The applicant's transactional engagement is solely with the fronting bank, which then communicates the request to the syndicate for transactional approval within a pre-determined period. The beneficiary is unaware that there are multiple sureties and banks behind the fronting bank. The main benefit of this structure is to achieve scale by enabling the borrower to raise a single large SBLC facility from multiple lenders.

As Marc Underwood, treasury senior trade finance manager at Lightsource bp, says: "Working together with Howden and BNP Paribas has enabled Lightsource bp to access an alternative and competitively priced source of capital that can be easily scaled to meet our increasing requirement to provide performance guarantees as we deliver on developing 25GW of solar projects by 2025."

Azman Noorani, global head surety, director, Swiss Re Corporate Solutions, adds: "With the current challenging global market environment and the strong push to transition to newer sources of energy, the availability of capacity will become even more constrained. Swiss Re Corporate Solutions, working with other sureties and Howden, see a huge opportunity to help our clients by working together with the banks. Together, we can provide larger capacities in a simple structure for the clients."

"Borrowers are increasingly looking at alternative sources to optimise their capital structures," says Ananya Modi, director, Rothschild & Co. "The surety product offering has matured in recent years and the market has proven itself to be a reliable source of funding / liquidity for a wide range of corporate borrowers. It is expected to continue to grow in relevance and can be combined with facilities from existing banking partners to achieve a more efficient capital structure."



|brewer morris

# Finding the right 'talent search' fit

Why are more large organisations turning to a specialist recruiter to find their senior hires? Eliot Bates explores some of the answers

LEADERSHIP & CAREER

Traditionally, the largest corporates and financial services institutions have turned to the leading search firms when recruiting finance roles within the C-Suite.

As the role of the group treasurer becomes increasingly strategic and is more often seen as a C-Suite level hire and/or a route to CFO, there is increased focus on how these roles are recruited and the process involved. Typically, a long-standing relationship between the CFO and a headhunter will mean that the first call has usually been to a more general senior finance recruiter.

There are many reasons that the large search firms are a good choice of partner for senior finance hires: they are well networked with an outstanding reputation, they have a robust process which ensures excellent coverage of the market and they are experienced when it comes to screening and interviewing potential candidates.

But as I focus solely on the treasury executive search market, I have noticed that there is a trend towards some of the leading businesses in the UK choosing to use a treasury specialist to run these very senior mandates. Here, I explore a few of the reasons why.

## 1) Network

The treasury profession is comparatively small and extremely specialist. Working within only this market means that specialists can build a very focused network, which in turn leads to holding deep and long-standing relationships with potential candidates. This allows them to have a better understanding of where to focus the search and makes the initial approach more meaningful than a cold call.

## 2) Approach

While specialist recruiters use exactly the same robust mapping process as the large search firms, they are also able to tap into their extensive networks as above. More importantly, they can deliver the same search approach employed by a researcher in the large firms, which means that an experienced, senior headhunter is carrying out the mapping and making the first contact with potential candidates. Their specialist knowledge of the treasury space means that the screening and interview process is robust and that they are able to test technical capability as well as personality and fit.

> **"Specialist recruiters' knowledge of the treasury space means that... they are able to test technical capability as well as personality and fit"**

## 3) Priority

Because they focus only on the treasury market, specialists will typically always have fewer mandates at any given time than the more wide-reaching, generalist search firms. Therefore, their clients realise that they are likely to get more attention and that the role is likely to be a higher priority for them.

## 4) Track record

Specialists can build a reputation for delivery at the very top of the treasury market and for outstanding customer service. This track record means that businesses trust them with some of the most important mandates in the treasury profession.

**Eliot Bates** is UK head of treasury recruitment at Brewer Morris

# FX systems drain corporate time and resources

Volatile exchange rates are giving treasurers a headache, and yet a third say their set up is not fit for purpose, says Eric Huttman

RISK MANAGEMENT & STRATEGY

Foreign exchange risk management has risen to the top of the agenda for many senior finance decision makers at corporates in 2023. And although volatility has decreased in recent months, it is still a threat because of a combination of rising interest rates, high inflation and geopolitical uncertainty.

This is particularly the case for North American firms transacting in the US dollar which, according to Kyriba's July 2023 *Currency Impact Report*, reported $21.24bn (£16.66bn) in FX headwinds in the first quarter of 2023 – up 45% from the same time last year.

With uncertainty set to stay, corporates need to adapt FX risk management strategies to stay ahead of the curve.

### The changing face of hedging

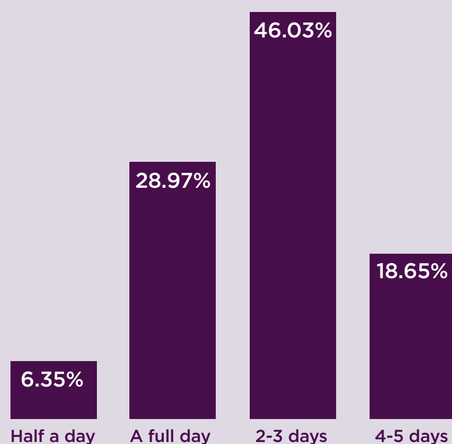
According to MillTechFX's own 2023 CFO FX survey, 81% of corporate treasurers have a formal hedging programme in place and out of the 19% that do not, almost seven out of 10 (69%) are considering implementing one.

CFOs are typically hedging a higher amount of their exposure to increase their protection. MillTechFX's survey found that the average hedge ratio was between 60-69%, with nearly eight out of 10 (79%) corporates citing this as higher compared with this time last year.

Similarly, many are now locking in rates of six months or less with the average length of hedges at five and a half months. This suggests corporates are opting for shorter hedge lengths to add an extra layer of nimbleness and flexibility should the market move against them.

An interesting dynamic is that more than three-quarters of firms report that the cost of hedging has increased over the past year. This means corporate treasurers should consider balancing the cost of hedging against the risk of not hedging and the potential impact on the bottom line.

**HOW MUCH TIME PER WEEK DOES YOUR TEAM SPEND ON FX-RELATED MATTERS?**




Source: The MillTechFX North America CFO FX Report 2023

### Out with the old, in with the new

Despite the renewed focus on managing the threat of currency movements, a third of corporates rate their FX set-up as below average or worst in class.

One of the main reasons for this is the persistence of manual legacy systems that can be extremely inefficient. The MillTechFX survey found that 40% of corporate treasurers have to manually send or upload files for instructing financial transactions, with 35% relying on phone and 34% on email.

This makes the entire process of executing an FX trade a huge drain on time and resources. Corporate treasury teams spend on average 2.31 days per week on FX-related matters, while 72% have three or more people tasked with FX activities. It is therefore unsurprising that 81% of corporate treasurers are looking into new technology and platforms to automate their FX operations.

### Certainty in an uncertain environment

Hedging currency risk is one of the primary ways that firms can mitigate the risk posed by the current uncertain climate, meaning many are now considering doing so.

Looking ahead, getting the right processes in now and implementing alternative technology-driven solutions will be key to managing FX risk more effectively

**Eric Huttman** is CEO of MillTechFX

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# DIARY DATES

The ACT's Annual Conference is a highlight of the year

## ACT EVENTS

### 8 NOVEMBER 2023 | LONDON, UK

**ACT ANNUAL DINNER**
Celebrating 40 years, the ACT's Annual Dinner brings the treasury community together for a memorable evening.
***treasurers.org/dinner23***

### 21 NOVEMBER 2023 | LONDON, UK

**ACT ESG CONFERENCE**
Discover the future of ESG through high-level keynotes, panel sessions and Q&As at the ACT's second ESG conference.
***treasurers.org/ESG23***

### 20 MARCH 2024 | LONDON, UK

**DEALS OF THE YEAR**
The Deals of the Year Awards champion the outstanding work of treasurers, undertaken during 2023. Submit your nominations by 1 December 2023.
***treasurers.org/doty23***

### 21-22 MAY 2024 | LIVERPOOL, UK

**ACT ANNUAL CONFERENCE**
The ACT Annual Conference returns to the ACC Liverpool. Join us to hear from expert speakers, discover innovative solutions and network with your peers.
***treasurers.org/actac24***

## ACT TRAINING COURSES

Join one of our virtual training courses and expand your treasury knowledge in a week or less.

### 17-18 OCTOBER

**BLOCKCHAIN FOR CORPORATE TREASURY**
Learn about blockchain technology, DeFi, NFTs, and the metaverse and dive deep into the new opportunities that these and other recent technological developments present. The course will run over two highly interactive half-day sessions over two consecutive days.
***learning.treasurers.org/training/blockchain-for-corporate-treasury***

### 19 OCTOBER

**THE NUTS AND BOLTS OF CASH MANAGEMENT**
In just one day, you will explore the principles and practices of cash and liquidity management, and their importance to the business and treasury function. This course will give you an overview of the role of a treasurer within the context of business.
***learning.treasurers.org/training/cash-management***

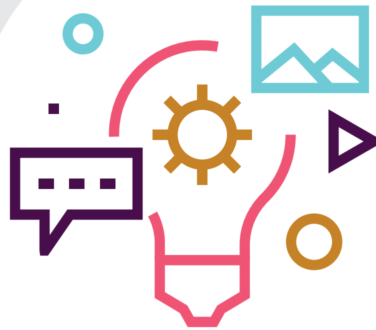
### 31 OCTOBER-3 NOVEMBER

**ADVANCED CASH MANAGEMENT**
This course covers practical cash management, bank account structures, payables and receivables, liquidity and finance, cash management solutions and real-life case studies. The content will be covered over four highly interactive three-hour sessions over four consecutive days.
***learning.treasurers.org/training/advanced-cash-management***

### 13-17 NOVEMBER

**THE A-Z OF CORPORATE TREASURY**
This overview of the fundamentals of treasury management is perfect for new entrants to the profession, bankers and those working alongside the treasury team. Learn about corporate treasury within the context of international markets, and build a deep insight into the core areas. The content will be covered over two highly interactive sessions per day over five consecutive days.
***learning.treasurers.org/training/corporate-treasury***

Preferential rates for ACT members and group discounts available.
For more information, visit learning.treasurers.org/training or email learning@treasurers.org



# Getting the message across

From public relations and financial services to membership bodies and Comic Relief, the ACT's new chief executive Annette Spencer will be able to draw on all of her career experience as she takes on her latest role

LEADERSHIP & CAREER

Annette Spencer, the new chief executive of the Association of Corporate Treasurers, has been in her role since since early September. Here, she tells *The Treasurer* what members can expect, what attracted her to the position and how her previous experience in many roles will help her guide the association through the next phase of its development.

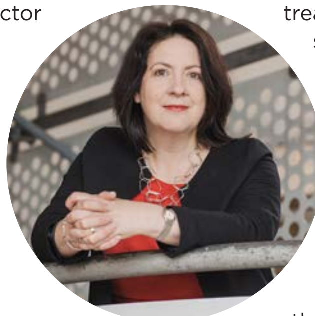
### TT: Annette, please tell us more about your career?

**AS:** My career started in communications and PR, working for large financial services organisations. As I took on roles with more responsibility, my remit expanded to include work in policy and regulation as well as marketing and brand management. The first part of my career included working on demutualisations, flotations, acquisitions and mergers, spanning both B2B and B2C businesses.

About a decade ago, I moved into working in membership organisations, initially as director of communications at the Investment Association. For the past five years, I have been the director of policy and marketing at the Institute and Faculty of Actuaries.

I've been very lucky to have a career where no two days have ever been the same, right from the start. It's hard to pick out any particular highlight but some projects are especially memorable: from an early morning photo call with a thoroughbred racehorse in the heart of the Square Mile (to announce a new racing sponsorship) to working on the detail of documents for the Securities and Exchange Commission (SEC) to help an insurer exit the US market; working in Eastern Europe for a year to acquire and integrate three businesses in Poland, Russia and the Czech Republic, to manning the phonelines for Comic Relief at First Direct and writing the obituary for 'Lucky the Dog' at More Than.

My work has taken me across five continents, from Moscow to Toronto and Washington DC, Copenhagen to Sydney, Shanghai to Cape Town.



Annette Spencer

### TT: What are the areas in your previous experience that you will be able to call on as you take on this new role?

**AS:** There are probably four areas I should highlight:

**1.** Knowledge of the financial sector and how financial markets and corporate transactions work. This has sometimes included working with treasurers, such as on financial results statements, funding for acquisitions and capital restructurings.

**2.** Experience of influencing (often complex) policy and regulation, working with regulators, officials and elected politicians at regional, national and supranational level.

**3.** Working with members, and especially evolving what membership organisations can offer to support their members in a rapidly changing environment.

**4.** The responsibilities of a Royal Charter body, especially in relation to qualifying new members and upholding professionalism.

I get the most satisfaction from those projects that require time and are likely to twist and turn a bit along the way, but which result in tangible improvements and lasting change. Examples would include post-merger integration programmes, re-brandings and digital modernisation programmes.

## Purpose and influence

I enjoy working in the membership sector for the variety of work and the real sense of purpose and influence – there is a unique and rewarding sense of partnership in working with members. My experience has also made me passionate about all aspects of financial management as an enabler for business and society, and the importance of professionalism and standards in this field.

I'm really excited about this role as it offers me the opportunity to combine these passions and work with a committed team in developing the ACT as a modern and effective professional body.

## TT: How would you describe your leadership style?

I'm wary of labels in this area, and I think it's important that each leader can be themselves with the individuality that this entails. I think the question is really about what my role is: working with members, to set a clear direction for the organisation and support the ACT team and volunteers to deliver it. Being a positive representative and ambassador for the profession is also a key element, I believe.

It's clear that the ACT has a loyal and supportive membership and that is a valuable asset to build on as we seek to ensure the organisation's financial resilience. The work already under way to understand how we evolve our qualification structure to keep it relevant for a new generation of treasurers will also be important.

Medium term, there are opportunities to increase the broader awareness and influence of treasury and treasurers, and look at how and where the membership could grow.

The best piece of advice I have been given is that whatever task you have – big or small – do it the best you can.

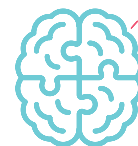
## TT: And away from work, what keeps you busy?

I'm a slow but regular runner, which gets me outdoors and gives me space to think. I love the arts – theatre, music and exhibitions, so I get to those as often as I can. And I enjoy watching all kinds of live sport, especially Formula 1.

I'm a long-standing volunteer in my own professional body, the Chartered Institute of Public Relations (CIPR). I've served on its Council and Finance Committee, and chaired the CIPR Corporate and Financial sectoral group. These days I'm a member of the Professional Standards Panel and a champion for its Chartership qualification.

It's very useful to know the challenges and rewards of being a volunteer in a professional body alongside working as an executive in one.

Apart from that, I'm the current president of the alumnae committee (the Roll) at Newnham College, Cambridge, and I am a writer, having contributed the 'Financial Communications' chapter in *The Public Relations Handbook* (6th edn, Routledge, 2021).



### CV

**2023**
Chief executive,
Association of Corporate Treasurers

**2018**
Director of policy, events and marketing,
Institute and Faculty of Actuaries

**2017**
Investment communications lead,
Universities Superannuation Scheme

**2016**
Programme communications lead,
Zurich Insurance Company

**2015**
Interim head of corporate communications,
Financial Conduct Authority

**2013**
Director of communications,
The Investment Association

**2010**
Global head of media relations, Salans LLP

# A day in the life: African Export-Import Bank

As group treasurer of Afreximbank, Chandi Mwenebungu works to keep Africa's wheels of commerce turning

LEADERSHIP & CAREER

My work day starts between 7am and 7.30am Cairo time – that's the time I arrive at the offices even though the official start time for the bank is 9am. Every Monday morning, we have a team meeting where we look at the progress we are making on our departmental scorecard milestones and, more importantly, look at how each team member is doing and whether they need help. We also discuss all the treasury risks at hand and what we should be doing to mitigate them.

African Export-Import Bank (Afreximbank) is a child of necessity born amid a trade crisis in the continent during the 1980s, when Africa was exposed to banking run by western international commercial banks that chose to de-risk by shutting down their operations in the continent. The African Development Bank (AfDB) came up with a proposal for the continent to have a trade development bank that would focus on promoting intra-continental and extra-continental trade. That proposed institution is Afreximbank today. The bank's mandate is very simple – to promote trade between African nations and Africa trading with the rest of the world.

For example, in 2018 the bank established the continent-wide Intra-African Trade Fair, a platform where businesses from around the continent converge in one place to showcase their products and services to other businesses. The fair is a pivotal tool to broaden and deepen intra-African trade volumes. This year, the event will take place in my home city of Cairo between 9-15 November. In its first two events (2018 and 2021), the trade fair brought together more than 2,500 exhibitors and 77 countries, generating more than $74bn in trade and investment deals.

AFREXIMBANK

$24.52bn
in liabilities

$30.11bn
in assets

$26.01bn
in loans

25%
capital adequacy ratio
(all figures taken on 30 June 2023)

### The test of time

The bank has stood the test of time. For example, when the trade commodity price crisis hit the world in 2016-18, many international players immediately stopped providing trade facilities in the continent. The bank stepped in to provide member countries with counter-cyclical trade facilities that would enable them to make good any trade obligations that were falling due during the crisis.

The bank also stepped up during the COVID-19 pandemic and subsequent Ukraine-Russia crisis where it offered facilities and guarantees that enabled member countries to access vaccinations, fertiliser and food.

On an individual level, there are many opportunities here at the bank. They include learning new things every day and participating in the wider bank's strategic objectives. Treasury deals with both sides of the balance sheet – the financing as well as the asset development side of things. This enables us, as treasurers, to understand in-depth the 360-degree spectrum of the bank's activities and also deal with various high-level stakeholders, both internally (senior executives, the board of directors and shareholders) and externally (largely, clients and investors/lenders). Another opportunity involves passing on the knowledge that we are exposed to as treasurers to our colleagues and clients, and advising them on how to mitigate financial risks in order to efficiently achieve optimum results.

### Huge challenges

Raising finance is a huge challenge in the continent. The major underlying driver of this is the perceived 'challenging business environment' that most, if not all, international investors think about the continent. There is still an appetite to invest in asset classes of African origin, but these investors' required rate of return is usually on the higher side, which, to an African issuer means high cost of funding.

The bank is rated by international credit rating agencies such as Moody's, Fitch, Japan Credit Rating Agency and Global Credit Rating. But even though the bank has investment credit rating grades, the cost of funding is miles wider relative to similar issuers with similar credit rating grades in the developed world. This is clear evidence that there is a difference in how investors perceive and price the emerging market risks relative to similar risks in the developed world.

It is a clear corporate finance phenomenon that in a rising interest rate environment, investors run to safety, which means that most investors de-risk what they perceive to be high-risk assets in favour of low-risk assets that are equally paying better returns on a risk-adjusted basis.

Talent is also a challenge. The continent has a small pool of professionally trained treasury specialists. As a result, it takes a long time to recruit new team members. I have a real-life case where we have been looking for a treasury specialist since 2017 and we still haven't secured one yet. This makes life tough in the treasury space in the continent.

**"There is a difference in how investors perceive and price the emerging market risks relative to similar risks in the developed world"**

## Global travel

I have been, and go, all around the continent and the rest of the world. Recently, I have been to Kenya, Ghana, South Africa, the UK, Switzerland, DRC and many more. And of course, I must not forget Glasgow, in Scotland, where my family is based. I regularly commute between my two home cities – Glasgow and Cairo.

My advice to the younger ones is that when you make up your mind to pursue treasury as a career, take it seriously. The good thing is that treasury is very practical, evolving, challenging but satisfying. The myriad treasury principles that you study are the same things that you do at work – it's that practical.

My day usually ends with loads of positive adrenaline and satisfaction about my contributions that day. Among others, I like to go through my to-do list of the day to see how I have done. Before I leave the office, I also write down priorities for the following day – this is imperative!

**Chandi Mwenebungu** is group treasurer and director, African Export-Import Bank (Afreximbank)

## IN NUMBERS

**3.9%**
GDP growth across Africa in 2022

**20.9%**
growth in merchandise trade in 2022

**$18.1bn**
Africa's merchandise trade balance surplus in 2022

**$193.17bn**
intra-Africa trade in 2022, up 18.6%

**70%**
of the African population is under 30

# Value, vision and insight

RISK MANAGEMENT & STRATEGY

In recent years, the role of treasurers and CFOs has significantly evolved. CFOs are now defined as more of a chief future officer, expanding beyond traditional financial management responsibilities.

Now global economies are grappling with the need to combat climate change and transition to a net-zero economy. In this world, treasurers and CFOs have emerged as influential players by demonstrating their strategic value and providing critical insights that contribute to the organisation's overall transition plan – I would, in fact, call them chief value officers, CVOs.

As with every investment proposal, sourcing the funding plays an important role in ensuring the viability of a project. Similarly, with net-zero transition and sustainability linked plans, treasurers and CFOs need to understand and educate themselves not just on the availability of various instruments, but also on the merits of such plans and how to explain and report them. This is where the role of treasurers and CFOs expands into value creator and educator to the entire organisation.

In Oman, Vision 2040 serves as a comprehensive roadmap for sustainable development across the various sectors within the economy, being predominantly a fossil fuel economy. Diversification is a key success factor for the vision, which includes developing sectors such as tourism, manufacturing, logistics and green hydrogen.

ASYAD Group, being a main player in the country's logistics sector and a major enabler for its Vision 2040, has an ever-mounting role in diversifying Oman's economy and attracting foreign direct investment. As such, the role of ASYAD's treasury and CFO in unlocking the group and country's value proposition by aligning financial objectives with long-term sustainability goals has never been so important.

The group's exposure to a wide variety of shipping fleets – many of which are running on conventional fuel and carry crude and refined oil and gas products – presents a live example where ASYAD's treasury and CFO pivot the change management culture among their operational and commercial peers. This drives the transitional journey from the bottom up, starting with the reporting aspect of the transitional phase and leading into the viable funding solutions to these plans – which are integrally embedded into the group's business plan.

Historically, treasurers have always held the most commercial role within the finance function. In playing an ambassador role to the organisation's investors and lenders, they are close to the business. And this role has significantly evolved into 'transition to net zero' champions, empowering them to steer companies towards sustainability.

If there was ever a time for treasurers to claim a rightful seat at the decision-making table, it is now. They are able to set an example to other functions within their organisation and contribute to the global effort to combat climate change while fostering sustainable economic growth.

Treasurers, alongside the CFO, can ensure that their voices are heard, and their organisation takes concrete action to pursue the 2050 net-zero goals through their proactive engagement.

Their financial acumen, risk management expertise, strategic insights, and ability to tap the market with lenders and investors to raise green funds will be instrumental in securing a sustainable and resilient future.

**"Historically, treasurers have always held the most commercial role within the finance function"**

**Muhsin Alrustom is group chief financial officer of ASYAD**

ACT LEARNING

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**Advanced Cash Management |** 31 October - 3 November

**A to Z of Corporate Treasury |** 13 - 17 November

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