Treasury in Transition

By **Eleanor HIll**, Editor

Opportunities Not to Miss in 2021

To say it has been a challenging year for businesses is an understatement. Many companies have struggled to survive, while others have grappled with rapid shifts in operational models. As we head towards 2021, with the prospect of Covid-19 vaccines providing a ray of hope, how should treasurers prepare? Peter Cunningham, EMEA Sales Head, Corporate and Public Sector, Treasury and Trade Solutions, Citi, shares his insights.

As 2020 draws to a close, and not a moment too soon for many, the treasury community has successfully navigated some of the toughest trading and operational conditions in living memory. For many in the profession, 'building resilience' has become a maxim, and the phrase 'the new normal' has become part of the everyday business lexicon as the Covid-19 pandemic continues.

To enable their organisations to pivot towards this novel operating environment, treasurers have inevitably shored up liquidity – as was the case with previous economic and financial crises, explains Cunningham. "In the first stages of the pandemic, many treasuries sought to draw down on their revolving credit facilities [RCFs], establish new bi-lateral loans or tap the commercial paper markets. Internal cash sources were part of the mix too, with the efficiency of the cash conversion cycle coming under close scrutiny," he notes.

As the pandemic has progressed, businesses have rapidly established new sales and distribution practices, too – with the focus on digital channels and 'contactless' logistics solutions. Physical cash has also become an unwelcome payment method for health and safety reasons, which has changed the playing field for treasurers in many sectors, not least retail.

These changes alone would be enough for treasurers to deal with, but given the economic uncertainty driven by the pandemic, financial supply chains have also been a pain point. "Increased counterparty risk, currency volatility, and cost of goods, together with a host of other considerations, have each had an impact on the way treasury works," Cunningham explains.

Rethink and recalibrate

Although the damaging effects of the pandemic have been a wake-up call for many organisations – such as those that had fallen behind digitally, or taken their eye off cash flow forecasting during the good times – the optimal approach for 2021 is not necessarily about establishing brand new priorities, says Cunningham. "Instead, it's more of a driver to recalibrate existing priorities," he believes.

To some extent, he feels the pandemic has driven the need for a back-to-basics approach to liquidity. This means reinforcing the understanding that group cash is a corporate asset, and that treasury is the steward of that asset. "Taking action is a way of demonstrating to the outside world that the company is in command of the situation."

Being in control means being operationally resilient under pressure. There is a need to ensure not only that productivity is maintained with people working remotely but also that risk management and governance are not compromised by 'new normal' working practices. "This has forced banks and clients to look deeper at how we interact with each other digitally," says Cunningham.

Although the simple process of wet-signing a document was urgently revisited as lockdowns were imposed, with e-signatures being widely drafted into action, he says ongoing uncertainty – and the opportunistic nature of cybercriminals – means many other processes need sustainable risk-controlled solutions as we move into 2021.

Other areas to revisit in the coming months include physical, and therefore financial, supply chain improvements, particularly the use of 'just in time' (JIT) models. "The pandemic has seen a shift away from JIT to 'just in case' models, with companies holding an inventory buffer to see them through any potential restrictions. And this may be an operating model we will see more of in 2021 as companies look to keep their supply chains running smoothly, whatever the economic weather.

Cunningham comments: "With many supply chains exposed to stock constraints under lockdown, some pharma and healthcare clients experienced sourcing issues as demand spiked. This highlighted a lack of supplier diversification for some and a rethink is required here." He stresses, however, that there are wider conversations to be had here too, such as the impact of prioritising cost and leanness over longer-term resilience.

Ahead of the curve

That said, it is inevitable that the pressure on top-line growth felt by most businesses during the pandemic has pushed cost savings and efficiency drives up the agenda. With the 'do more with less' mantra gaining volume across the board, it is an "acute challenge" for treasurers to keep finding opportunities for savings, notes Cunningham. The pressure, he adds, will likely continue for some time.

With this in mind, the importance of keeping abreast of e-commerce and digital payment trends throughout the coming year cannot be overstated. The pandemic has accelerated the adoption of digital strategies and omni-channel approaches, but while this agenda has been bubbling along for some time, Cunningham has seen treasury somewhat "disconnected" from strategic discussions. "Often these decisions are taken in a vacuum, being led by business, product or geographic considerations. They don't necessarily look at it through a treasury lens that applies risk and control aspects."

Avoiding the critical gaze of the treasurer could, for example, see risk introduced if sales are made in a range of non-functional currencies that are not part of a hedging programme. "If volumes increase substantially, it could expose deep inefficiencies in the ability to manage receivables, reconciliations and cash application processes," cautions Cunningham.

"And as e-commerce becomes central to top-line growth, treasury really needs to have a seat at the table to discuss strategy. At the moment, with a few exceptions, treasury is not afforded this opportunity. But it's surely better to discuss all the options upfront, rather than try to fix things after the fact – especially when e-commerce is likely to be a key driver of business success in 2021?", he questions.

Sustainable development

Like e-commerce, the environmental, social and governance (ESG) agenda has long been part of the corporate consciousness. "Pre-Covid-19, it was starting to feel more mainstream and tangible," comments Cunningham. With treasurers increasingly exploring the role of the function in this space, "momentum had been building".

And again, as with e-commerce, the onset of the pandemic has acted as a catalyst for further progress. Indeed, he observes: "A notable pandemic-driven focus on the sustainability of supply chains and on the treatment of employees, with close scrutiny by the immensely powerful consumer."

As more treasurers play their part by exploring sustainable finance – green bonds and linked loans for example – they are increasingly looking to their relationship banks for guidance and suitable products. Whereas supply chain finance is traditionally used as part of

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working capital strategy, within an ESG agenda, Cunningham notes that it is now being leveraged by buyers as a means of incentivising suppliers to meet agreed ESG-based key performance indicators (KPIs). And as standards develop, so the ESG product set will broaden and gain further traction.

This is certainly the case on the bank asset side. Here, Cunningham reports that Citi Travel & Expenses (T&E) card clients can even donate their rebates to a carbon-offset programme. But it is increasingly so on the liabilities side too, as banks such as Citi roll out green deposits.

He notes: "There's a natural synergy here as we look to both sides of the balance sheet of our business to drive ESG performance and help treasurers deliver tangible responses to their company's ESG agenda". There will be "a lot more to come too", he adds, not least as traditional banking products are redeveloped to fit corporate clients' developing ESG strategies.

Additional areas of focus

Elsewhere, while the pandemic may have stolen the headlines, the clock is still ticking on Brexit negotiations. The earlier intense period of discussion with clients about what it means must now translate into action, says Cunningham.

With many having taken a worst-case scenario as their base, he believes it will operationally at least stand most in good stead, with the observation from a core treasury perspective that there is "generally a fairly good state of readiness".

However, uncertainty remains around the flow of goods across borders, safety standards, tariffs, packaging, labelling and a host of other elements that could introduce friction into the trade environment. If this happens, Cunningham believes that production cycles will increase, which will mean more working capital required to support that cycle. It will cost and treasurers should remain alert.

Another change to have on the radar is London Inter-bank Offered Rate (LIBOR) transition. Referenced in most underlying corporate financial contracts and agreements, externally and internally, the transition by the end of 2021 from LIBOR to new alternative reference rates, also known as risk-free rates (RFRs), is a massive undertaking.

In tackling the work, it makes sense to have already nominated a treasury lead for the cross-functional working group, says Cunningham. "Treasury naturally has a seat at the table here," he states. The transition requires a tax, accounting and legal review of all LIBOR-impacted documents, and subsequently all exposures must be mapped to the new RFRs. This may benefit from externally provided due diligence to ensure new documentation is watertight, says Cunningham.

Aside from documentation, one aspect that some may have missed is systems readiness, he notes. "Core treasury systems – TMSs [treasury management systems] and ERPs [enterprise resource planners] – need to be able to handle RFRs. These calculations need to be built into the underlying intercompany flows, and any references elsewhere to these," he says.

A communication strategy is also required to ensure internal partners, such as subsidiaries and in-house banks, understand the transition and what it means, affording them sufficient time to respond. "The treasurer has an important role to play here," he cautions.

Preparing for 2021

But with all of these different tasks and challenges on the treasurer's plate, how can they realistically prepare for the year ahead?

At the highest level, Cunningham urges treasurers to "expect the unexpected" in 2021, and for good reason. "Despite medical breakthroughs, there is likely to be more volatility ahead. One of the best ways to weather this is to build as much optionality as possible into everything you do," he says.

Of course, throughout 2021, treasurers must also maintain sight of risk management and controls, particularly as new digital channels open up, and alternative working practices, such as remote working, continue.

And despite the long to-do list, Cunningham absolutely sees an opportunity for treasury to play an elevated role going forward. "This may be in an advisory capacity, looking at the financial impact and effects of e-commerce, or perhaps steering the ESG agenda towards tangible action. Whatever form it takes, it is an opportunity not to be missed."

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Peter's main responsibility is to lead and direct TTS' EMEA sales strategies for the bank's Corporate & Public Sector clients including: new sales origination, cross-sell, and ensuring client satisfaction. The team's mission is to develop long-term treasury and working capital management relationships with its clients across their financial and commercial ecosystems leading to a deeper and broader strategic banking partnership.

Peter is a frequent speaker at industry conferences and has published several thought leadership papers in industry publications. Prior to his current role, Peter held different leadership positions across the TTS business within Citi's Institutional Client Group. Most recently, Peter held positions in TTS as the EMEA Sales Sector Head for both the Consumer & Healthcare and Technology & Communications sectors.

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