

THE FUTURE IS NOW: HOW READY IS TREASURY?

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ABOUT THIS RESEARCH

The Economist Intelligence Unit, on behalf of Deutsche Bank, surveyed 300 senior corporate treasury executives between April and June 2018 to explore treasurers' expectations regarding technological developments, their views on any disruption taking place to their companies' business models and network, and what they believe may be driving these changes from a regulatory and compliance perspective. The survey set out to determine the technological and regulatory challenges they feel most pressing and pertinent to treasury, and to evaluate their readiness for change.

Executives were drawn from a broad range of businesses, including aerospace/defence (2%); agriculture and agribusiness (4%); automotive (8%); chemicals (7%); construction and real estate (6%); consumer goods (7%); energy and natural resources (7%); entertainment, media and publishing (6%); financial services (8%); healthcare, pharmaceuticals and biotechnology (7%); IT and technology (7%); logistics and distribution (5%); manufacturing (8%); professional services (2%); retailing (5%); telecommunications (7%); and transport, travel and tourism (5%).

In addition, we conducted a series of in-depth interviews in May-June 2018 with five senior treasury executives from around the globe. Our thanks are due to the following for their time and insight (listed alphabetically):

- Christopher Emslie, Asia regional treasurer, General Mills
- Priti Kartik, treasurer, Logitech
- Mark Kirkland, group treasurer, Constellium
- Christopher Van Woeart, head of treasury, Stripe
- Mark Venner, treasurer, BAE Systems

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EXECUTIVE SUMMARY

The traditional role, structure and staffing of treasury are being challenged on all sides. Customers, supply chains, banks and transaction services providers alike are being disrupted by digitalisation and new technologies. Corporate treasurers face the direct challenges of new compliance, tax and regulatory initiatives in Europe, the US and elsewhere while coping with the ongoing evolution of their own companies' existing business models.

These changes create a dilemma for treasury. Treasury cannot de-emphasise its core functions of cash and liquidity management, accounts payable/accounts receivable (AP/AR) oversight, funding, and financial risk management. But at the same time, it has progressed from being a transaction and reporting centre to a more strategic risk holder and analytics centre of excellence. This strategic evolution means treasury has to mobilise new automation technologies such as artificial intelligence (AI) and robotics, open application programming interfaces (APIs), and cloud services if it is to free up resources and add more value.

The future of best practice in treasury is inextricably linked to next-generation data analysis. Treasury is the company's natural financial data depository and analytics engine for future planning. However, to take on this strategically important role, treasurers will have to go beyond their traditional finance training. They will need to embrace wider software engineering, data science and project management skills themselves or at least be able to lead a team that includes those disciplines.

So, do treasurers understand the nature of the challenge? Are they ready for a future that is, in many ways, already here?

Our survey results suggest that while some companies are well advanced in their preparations, others are, at best, ambivalent about the profundity of the changes they face. Some do not believe that disruption affects them. Others seem complacent about the new skill sets and knowledge that treasury will require to function well within this new environment. Most of the respondents were unable to think about the "unknown unknowns"; they believe that existing systems are the future of treasury technology and existing functions will be the main areas that new developments in AI, blockchain/distributed ledger technology and automation will be applied.

The survey results indicate a growing divergence between those treasurers possessing the resources that enable a longer term strategic view and those forced to solely focus on traditional tasks, leaving them vulnerable to decisions taken by their more strategic thinking CFOs and CIOs.

Key findings

- **Disruption is real and the causes are manifold.** More than 55% of treasuries say that their company is changing operational models as a result of sector disruption and that this is having a knock-on effect on treasury.

THE FUTURE IS NOW

HOW READY IS TREASURY?

- **Business models are being disrupted from all sides.** Treasurers see the most disruptive influences as multi-channel payments (47%), mobile-based solutions (43%) and changes in supply-chain product life cycles (41%).
- **Respondents are highly confident that they have the right skill sets in their teams to respond to the rapid pace of technological change.** The vast majority (80%) of treasurers believe they have all or the majority of the skills necessary to meet the challenges posed by ongoing technological change.
- **Stay with what we know.** Treasurers overwhelmingly believe that treasury management systems (TMS) and enterprise resource planning (ERP) systems will remain the core of treasury technology, with 35% and 36% respectively choosing existing TMS and ERP systems as the most useful technologies. Treasury is still hesitant to fully embrace the cloud; however, 31% of treasurers would consider moving in-house systems to it.
- **Treasury is behind the open API curve.** Although treasury recognises the benefits of big data analytics, with 56% of respondents citing it as one of the most beneficial new technologies, only 13% are thinking about open APIs.
- **US tax reforms challenge corporate treasurers.** The top regulatory concern for respondents is US tax reform, cited by 28% of respondents. Other regulatory concerns, each cited by 25% of respondents, were anti-money laundering (AML), know-your-customer (KYC) regulations and International Financial Reporting Standards (IFRS) 9.

CHAPTER 1: **TECHNOLOGY IS THE GAME** **CHANGER**

“You may be able to automate everything, but the interpretation of a report still needs an expert to execute strategy. That’s where treasury’s future lies.”

Mark Kirkland, group treasurer, Constellium

Learning about the ABCs

Despite the strategic advantages technological knowledge may provide for the corporate treasurer, the question remains whether treasurers are willing or able to change. How easily can they accept new technologies and which ones are they most likely to use? Given the potential for traditional treasury activities to be spilt across several different tech-driven functions, are today’s treasurers the right people going forward?

The extent to which digitisation, along with artificial intelligence (AI), blockchain and cloud technologies (the “ABCs”), are truly relevant to corporate treasury is still not clear. There has been a tendency to assume that the digital, mobile and cloud technologies that have become integral to our personal lives will come to dominate the workplace, including the treasury function. Many organisations are slow to advance their rate of technological adoption. They are, for example, still reliant on physical storage devices like hybrid internal drives. Others have started to recognise some of the advantages technology can bring and have adopted cloud and software as a service (SaaS) systems. Treasury is employing SaaS enterprise resource planning (ERP) systems, treasury management systems (TMS) and similar financial applications. However, some treasurers are becoming a bit more adventurous and have started exploring new digital fintech and banking platforms. So even though the ABCs have been hot topics of discussion, the actual timeframe for when they may be broadly used, thereby creating a digital treasury ecosystem, will be dependent on a number of factors.

Given continuing advancements in the ABCs, the next-generation treasurer will not only need to understand finance, but also will need to have a skill set that encompasses software engineering, data science and project management. Treasury can become the strategic risk holder in the company in addition to its more traditional role as the data repository by being able to use robotics and AI to offer insights that drive value for the business.

A digital toolkit for the next-generation treasury

According to the survey results, big data analytics, AI/machine learning (ML) systems, robotic process automation (RPA), instant payment technologies, blockchain applications and open application programming interfaces (APIs) are the technologies that treasurers, their suppliers and commentators

identify as the critical components of the next-generation treasury. Together, they promise to deliver a paradigm shift in the automation of complex but low value-added manual processes. They have the potential to take vast amounts of structured and unstructured data to improve forecasting and identify previously undetected patterns in customer behaviour, payment trends and risk management variables. They will not replace human judgement, but will improve the value of it. The proof point will be if this technology combination creates efficiencies in daily treasury operations and allows treasury to become a truly strategic partner to the business.

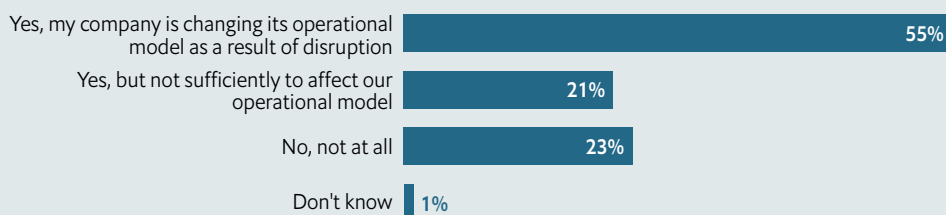
Distinct disruption divergence

It is clear there is a distinct split in the view among treasurers of disruption, digitisation and technology. When asked about sector disruption and how it was affecting treasury operations, 55% of survey respondents admitted it was an issue for them. However, this view is not shared by 23% of respondents, with a further 21% believing that any disruption in their sector was not sufficient to affect their own operational model. In other words, more than 20 years after Clayton Christensen first coined the phrase “disruptive innovation”, more than a decade after the launch of the iPhone and the App Store, and nine years after the founding of Uber and the deployment of the first generation of SaaS TMS, 44% of the treasurers surveyed still say that disruption to their underlying business is non-existent or so minimal that it doesn’t affect their treasury operations.

Chart 1

Do you believe that your sector is being disrupted and that this is affecting treasury operations?

(% of respondents)



Source: The Economist Intelligence Unit.

This divergence is important because it points to a “wisdom-of-the-crowd” fallacy. It is true that IT-heavy functions like treasury have to move slowly to avoid disrupting their own firms. It is also true that key treasury pain points have not changed significantly in the past five years, and that it takes time to build the business case for solving them, as well as to procure and test new technologies. Although there are some responding that there is effectively “no change”, this does not match the experience of a multinational like General Mills. Christopher Emslie, Asia regional treasurer at General Mills, says: “All sectors have been disrupted. We are looking at ways to work smarter and offer even more value-add to our organisations—for example, automation as well as work flow to make the process far easier to manage. This will enable the organisation to take a more strategic review and [consider] the broader picture that is on offer.”

Far from the maddening crowd

There may be two explanations for this mixed response by senior treasurers. One is that technological advancement is not a fundamental reality for many companies. Looking at the survey responses by sector reveals no obvious pattern. There are no significant geographical differences, and no significant variances based on company size. Of those companies that said they were not being disrupted, approximately half were in the agriculture/agribusiness, chemicals, construction and real estate, energy and natural resources, manufacturing transportation, and travel/tourism sectors. This may be attributable to the slower pace of true digital disruption in these sectors. However, those denying any necessity for change also included sectors where there have been numerous reports of digital disruption: retailers, telecommunications, healthcare, and IT and technology.

The other explanation may be that treasurers do not want to accept that their roles are on the precipice of change. Change is threatening on many levels: it can mean outsourcing a department to overseas processing centres (shared service centres [SSCs] and global business services [GBS] units), it can create the demand for a new set of skills, and it could result in loss of status or jobs. These fears may be well grounded. RPA, in particular with an AI overlay, is already producing solutions that allow a significant sub-set of treasury functions to be automated and outsourced to SSCs, GBS units or third parties. Treasurers themselves are already being asked to break down and redesign existing on-shore jobs for outsourcing to SSCs. That process can also be used to map treasury processes into a digitally executable form. This is already altering treasury staffing, structure and function at some companies.

As noted in a 2017 PwC report,¹ "Virtualisation is prevalent in treasury and will shape treasury probably even more than other business functions. Already two-thirds of staff involved in treasury processes do not report directly or even indirectly to the treasurer. A number of treasurers have outsourced their back office and payment factory processes to shared services and exposure reporting increasingly involves local finance. These treasurers are more concerned about effective Key Performance Indicators (KPIs) and effective Service Level Agreements (SLAs) for these functions rather than their day-to-day management."

Significantly, it is clear that the impetus for this kind of re-engineering frequently comes down from the CFO rather than being instigated and driven by treasurers. However, this may change in the future as the next generation of treasurers may be more familiar with and greater proponents of these technologies than their predecessors.

What's under the hood?

Although 39% of respondents identified disruption due to new technologies as the driver of change in the treasury department, it was not the clear reason for change. Changing business models along the supply chain (38%), changing internal business models (38%), digitisation (36%) and regulation (35%) were considered as drivers of change, indicating that treasurers may see change as a chicken and egg scenario.

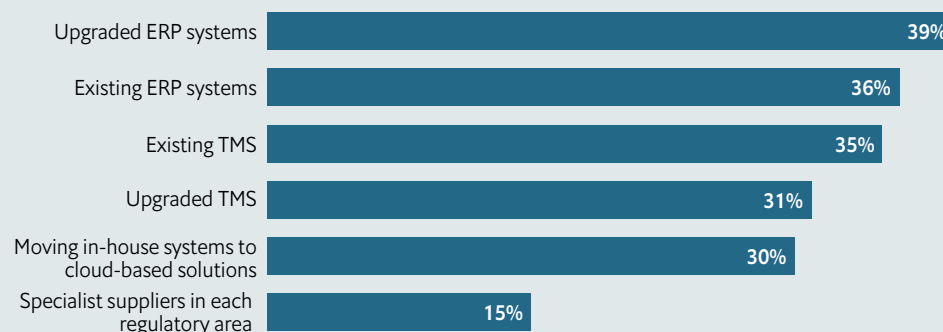
¹ PwC, "Digital Treasury – A future-state vision", 2017, <https://www.pwc.com/us/en/risk-regulatory-consulting/publications/assets/pwc-digital-treasury-a-future-state-vision.pdf>

Moreover, the survey results suggest that treasurers are having difficulty in understanding what the “unknown unknowns” may be. When asked “What will be the most useful technology system for treasury?”, 36% of respondents did not even say “upgraded ERP systems”, believing instead that existing systems would suffice. It is therefore not surprising that 35% also said the same for “existing” rather than “upgraded” TMS systems. The fact that moving to cloud-based solutions was seen as less useful to treasury than either existing or upgraded ERP and TMS systems implies either that these respondents view the cloud as simply a place to move existing functionality for cost reasons rather than a technology that can provide fundamentally improved and new functionality or there are security concerns with using the cloud.

Chart 2

Which technology systems do you believe will be most useful to the treasury department?

(% of respondents, top two responses)



Source: The Economist Intelligence Unit.

Moving to cloud ERP or TMS systems should be much more than a cost-based outsourcing decision, as cloud applications are developed continuously, responding to advances in hardware, software, the regulatory environment and new techniques, like AI. The net effect would, theoretically, allow companies to create operational agility, freeing up resources for other areas.

Although it is encouraging that a third of treasurers are interested in moving to the cloud, more should be considering it given the evident pace of technological change inside and outside business. Otherwise treasury risks not being able to fully benefit from technological innovations that could give it higher influence within the organisation.

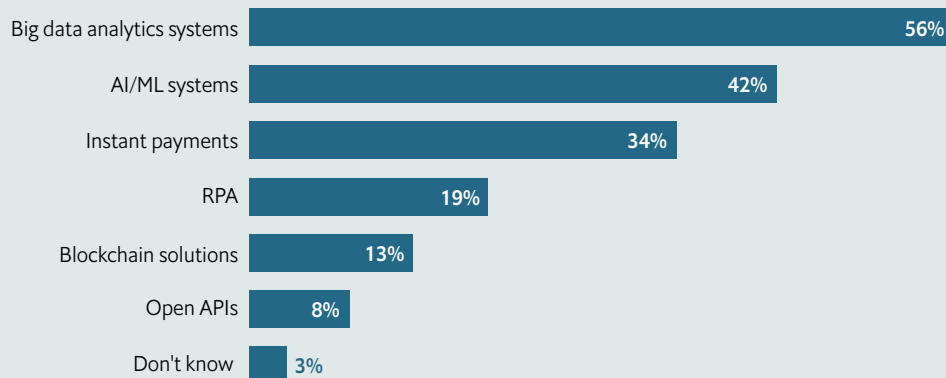
You can't hurry love

Despite their apparent unwillingness to move to new systems, treasurers do have some thoughts on which technologies will be most beneficial for their organisations. Survey respondents overwhelmingly think big data analytics (56%) will be most useful, followed by AI (42%) and instant payments (35%). However, blockchain/distributed ledger technology, which many might assume to be a natural fit for treasury, was selected by just 13% of respondents.

Chart 3

Which technologies do you believe will be most beneficial for your organisation moving forward?

(% of respondents, top two responses)



Source: The Economist Intelligence Unit.

This demonstrates that treasurers seem to find it difficult to envisage their activities beyond the traditional role of payments processing centre, data aggregator and report generator. However, this caution may be well served, as treasurers need to first identify their pain points before they can consider which technologies may alleviate them.

To do this, treasurers need good data, which often means going back to basics. As Priti Kartik, global treasurer at Logitech says, “you can have the finest technology, but if you cannot extract the data you need from the system, it doesn’t matter how good technology is, you won’t get the desired results. At Logitech, we have formed a global finance transformation (GFT) team. It includes members from business and IT. GFT helps various teams extract relevant data from the ERP system and create reports they need.” Treasury also has to build a business case for spending on new technology. This process tends to lead treasurers to a rigorous analysis of basic processes as they evaluate the costs and benefits of using new tools.

However, understanding which technologies to use may be less about process and more about familiarity and self-interest. The reason only 19% of respondents believe that RPA is the most beneficial technology may be attributable to their lack of awareness of the advances that have been made in intelligent RPA (see box). It may also be due to the fact that utilising RPA can put their staff and their own positions at risk.

This is certainly not the case at all companies. At Logitech, the treasury department is, according to Ms Kartik, actively looking at the technology that is out there and talking to other companies. “Where we can insert some automation, we will,” she says. “The goal is for teams to spend less time on data gathering and more on analysis. It is not about replacing people with automation but about creating efficiencies. As the company grows, we should be able to handle the increasing workload with the

similar size teams. The company recognizes the value of RPA and the GFT task force is working with IT to evaluate use cases and test possible platforms.”

Moving with the times

APIs—sets of programming commands that allow any developer to incorporate functionality from one application to another—seem to be all the rage, but the survey results indicate a definite disconnect between the treasurers’ view of open APIs and what is happening in the rest of the market. For example, the financial services market has been reacting to the EU’s open API initiative, the revised payment service directive (PSD2), which mandates that third parties be able to use open APIs to access certain customer information from banks.

Of more direct relevance to treasury are API ecosystems that can deliver a set of hyper-scalable and distributed applications and technology stacks. These essentially create APIs that allow treasurers to directly connect with their banks using their own treasury workstations or ERP systems to access banking services. The advantages for treasurers are the level of customisation available, the convenience of not having to use banking portals with proprietary applications and interfaces, and the ability to automate treasury tasks using applications that process transactions directly from their own treasury platforms to their banking partners. Another important use of APIs to improve efficiency in existing systems and drive business growth is to unlock data trapped in core systems. An example of this is Tennessee’s roadside rest-stop operator, Pilot Flying J,² which used APIs to unlock data piling up in its legacy and new IT systems. It was then, according to Tyler Tanaka, the company’s director of digital, loyalty, and innovation, able to offer truckers a mobile app to reserve parking spots at any of its 750-plus centres across North America.

So why are treasurers not focused on APIs? There are two possible explanations.

First, treasurers may think of APIs being of benefit for their bank, not them. Second, this is a tech-heavy issue and, although there will be treasurers actively involved with their ERP and TMS developers to exploit the “new, new thing”, many treasurers will not be. This potential lack of interest is not a sustainable strategy, as treasurers need to work with their banks and businesses to understand how APIs and real-time systems can benefit their own companies’ product offerings and drive business growth while improving treasury efficiency.

Through a glass darkly

Most treasurers still view new technology through a largely traditional lens: treasury’s focus over the past 25 years has been centralisation to gain better visibility and forecasting. The main problem treasurers have faced is aggregating key data in time to deliver meaningful reports and forecasts. Although it is rational to disassemble the current process, especially when returns on investment have to be justified, relying on existing ERP and TMS means that all problems look like traditional treasury pain points and may not reflect the real situation.

² *The Wall Street Journal*, “Companies Eager to Expand Digital Business Learn Value of the Once Obscure API”, June 12th 2018, https://blogs.wsj.com/cio/2018/06/12/companies-eager-to-expand-digital-business-learn-value-of-the-once-obscure-api/?mod=djemCIO_h

However, the overall survey results may reflect a story of transition, from one model of treasury to another, in which the people and skills best at delivering what was necessary yesterday are not the right people and skills to deliver tomorrow.

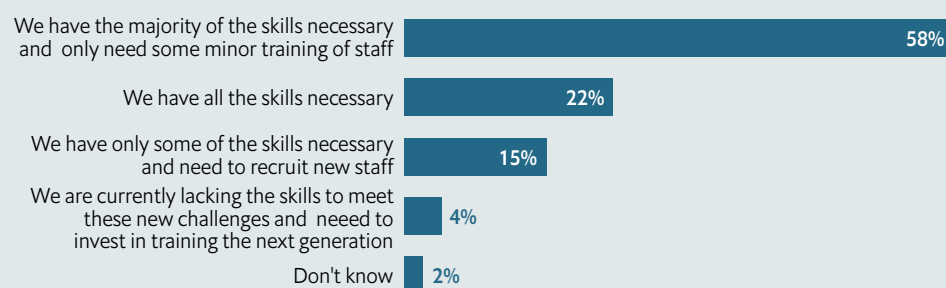
As one “new-generation” treasurer, Christopher Van Woeart at Stripe, a technology company, says, “I noticed at a recent treasury event that the majority of the companies present had legacy treasuries ripe for modernisation. Yet, leveraging new technologies and engineering talent to automate processes didn’t ring true as focal points or priorities for most of the treasurers I talked to.”

Stripe, he acknowledges, has the benefit of not being encumbered by legacy systems. “Fortunately, I showed up at Stripe with a blank piece of paper and asked myself what today’s priorities and efficiencies in treasury should be. I did that through a technology lens, working closely with our engineering teams to partner on finding opportunities to build an efficient and automated treasury function together.” In continually striving towards that vision, the Stripe treasury team includes more data scientists and software engineers than it does financial.

Chart 4

Do you feel that your treasury department has the necessary skills to meet the new requirements and challenges posed by technological change?

(% of respondents)



Source: The Economist Intelligence Unit.

Talking 'bout the next generation?

When it came to skill sets, the vast majority of treasurers (80%) believe that they have all or a majority of the skills necessary to meet the challenges posed by ongoing technological change.

It is hard to completely align these responses with the other survey data. What is clear is that treasury is being disrupted by technological change and it will become an even more technology-driven department.

It seems *prima facie* unlikely that current treasuries contain all or even the majority of the skills and knowledge necessary to meet the challenges of our new digital environment. It would be unrealistic to think that any department, at any company, does. In which case, it is a little worrying that treasurers are so (overly) confident. The digital skills that the next-generation treasury needs will require treasury

to look beyond the traditional finance-oriented individual. Treasury will have to competitively recruit these in-demand tech-savvy individuals if they are to develop new cutting-edge treasury best practices.

RISE OF THE ROBOTS

Robotic process automation (RPA) is the use of software “robots” to automate administrative processes by replicating the actions of human operators of computer systems. This is a new form of automation that does not require traditional application programming interfaces. The software robot is “trained” to execute the actions of a human operator, rather than programmed.

The automation of labour-intensive, but low value-added tasks through RPA is already increasing the speed and accuracy of processing in back- and middle-office applications in areas such as trade finance and others in which manual handling of core business processes is still significant.

Machine learning can help RPA solutions recognise document types; they can analyse unstructured data and learn from executing their own processes. These cognitive RPA applications can automate work in functions like trade finance, cash operations, loan operations and tax, increasing quality and decreasing risk, as machines make fewer errors. They also speed up processes, as machines can be run 24 hours a day, seven days a week, 365 days a year.

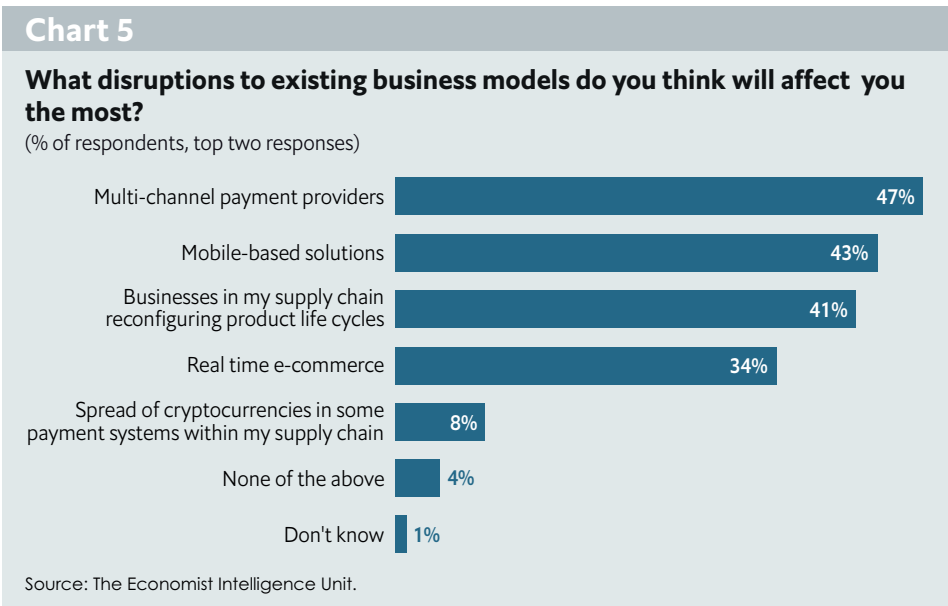
Processes that have been deconstructed and encoded into RPA systems can also be used to improve staff training. The automated system’s algorithms encode all the knowledge required to do the job and can be used to guide employees through tasks using intelligent assistants. These same assistants can also help customers through complex tasks.

RPA also has strategic implications for in-house treasuries and shared service centres (SSCs). Since RPA removes the needs for humans, offshoring may be reduced. This means departments become more efficient.

However, SSCs may themselves adopt RPA technology, making the case for outsourcing to them even more compelling. In this scenario, RPA may also solve one of the perennial problems of offshoring to an SSC. Many companies find that after offshoring, headcount actually increases in the SSC compared with the legacy process, sometimes at levels that negate much of the original business case. Using RPA to optimise the SSC may reduce this problem. It may also mean that firms have a complex trade-off between the RPA-enhanced onshore model and the RPA-enhanced SSC.

A payment disruption

Previously, mobile and multi-channel payments were largely focused on the business to customer and small and medium-sized enterprise markets. The proliferation of payment intermediaries did not significantly impact the daily execution of core treasury activities such as cash and liquidity management, financial risk management, asset and liability management, and bank relationship management. How customers paid for products was not directly relevant. This is no longer the case. Treasurers now see multi-channel payments and mobile as sources of disruption to their underlying businesses. This means they will now have to adapt their models to be able to deal with changes in supply-chain product life cycles and real-time e-commerce.



REALISING THE PROMISE OF AI

Artificial intelligence (AI) is being presented to CFOs as a way to lower the cost of operations, boost productivity, increase insight across their company and launch new business opportunities. Its message resonates, as the processes many firms rely on are often still largely manual and disconnected. AI promises intelligent automation and smart real-time analysis of siloed data, which will give enterprise-wide visibility, making it easier to see new opportunities or analyse the potential and risk of new initiatives.

AI is attractive to treasury because it promises a solution to age-old problems. According to the survey respondents, the most likely use for AI in treasury will be analysing and predicting supply-chain bottlenecks, followed by forecasting working capital needs, and predicting payment flows. There seemed to be

less confidence in using AI for planning mergers and acquisitions.

As with other new technologies though, in order to build a business case treasurers still need to map how AI solutions relate to their current tasks. AI has the potential to be a powerful aide for treasurers, but it cannot replace human expertise. As Ms Kartik at Logitech says, "it is important to look at what toolkit is appropriate for a company our size. In the past few months, I have met with a few companies that are beginning to test blockchain and AI solutions. For us, it may be too early to implement block chain and AI in a big way. We will continue to evaluate and see what makes sense for us, continue to talk to these companies to check on their progress and, as appropriate, build a business case for spending on new technology."

Chart 6

From what you know of AI, how do you anticipate it being used in your organisation?

(% of respondents, top two responses)



Source: The Economist Intelligence Unit.

CHAPTER 2: THE GROWING ROLE OF FINTECH

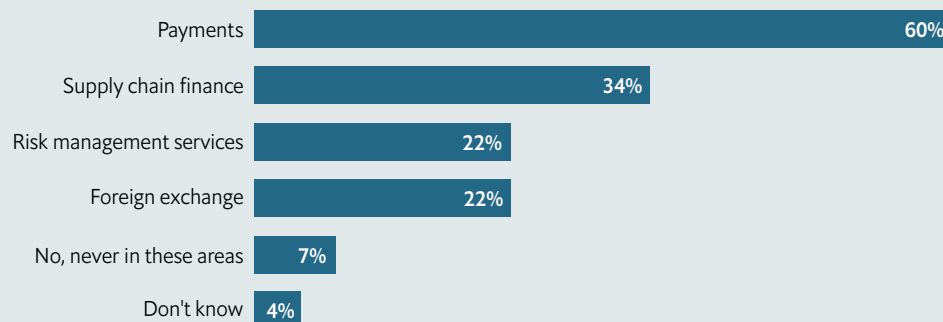
Vive la révolution

When thinking about new technology for treasury, we have to think of treasury's main partner, banks, and how they are being affected by the fintech revolution. As previous Economist Intelligence Unit research has shown,³ the banking industry is continuing to invest in and partner with fintechs. The increasing inter-relationship between fintechs and banks means that treasurers can choose to interact with fintechs in one of two ways: they can use them directly to replace existing service providers or deliver new products, or they can use them as part of their relationship with their bank partners.

Chart 7

How you used fintech services in any of the below?

(% of respondents)



Source: The Economist Intelligence Unit.

The survey responses point to the significant increase in the acceptance of fintechs, particularly in areas in which they have become mature. In both payments and supply-chain finance, the main fintech suppliers are now large-scale, mature companies. Examples include Adyen, a payment processor to Airbnb, Microsoft, Uber, Spotify, Sephora and Netflix, which is now looking to have its initial public offering at a valuation of up to US\$11bn. Another is Stripe, which combines a payments platform with applications that utilise revenue data. Stripe is used by businesses and non-profits worldwide, including Lyft, UNICEF and Salesforce, and is currently valued at around US\$9bn.

It is also significant that 22% of respondents were prepared to use fintechs in core bank services like foreign exchange and other risk management services. This again demonstrates the growing maturity of the fintech market and should push banks to continue to focus on improving services and reducing costs for their corporate treasury customers.

³ The Economist Intelligence Unit, "Symbiosis: Your bank has your trust, Can fintech make you love it?", March 20th 2017, <https://perspectives.eiu.com/financial-services/global-retail-banking-report-2017/white-paper/symbiosis-your-bank-has-your-trust-can-fintech-make-you-love-it>

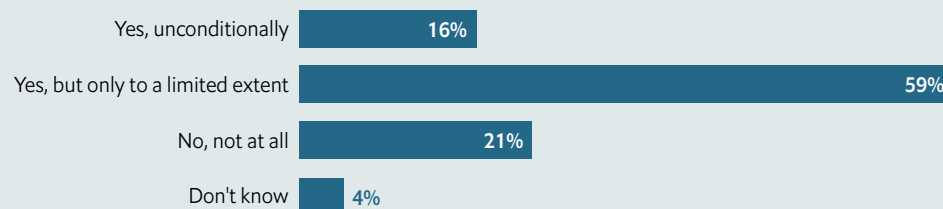
If in money we trust

Fintechs are gaining customer trust and the fact that 75% of respondents would use fintechs in partnership with banks is significant. Moreover, that 16% of treasurers would use a bank-fintech combination “unconditionally” demonstrates that companies view these partnerships as a guarantee that due diligence has been conducted at a level that would satisfy their own processes. This level of willingness to engage with fintechs is an indicator of how the treasury-fintech marketplace and relationship is likely to develop over the next few years.

Chart 8

Would you consider using a fintech organisation that has partnered with a bank?

(% of respondents)



Source: The Economist Intelligence Unit.

The most likely scenario is a rapid increase in collaboration between banks and fintechs, particularly in areas of new technology such as AI and blockchain,⁴ with corporate treasurers preferring these bank “approved” mechanisms. That does not mean there will not be successful start-ups that grow to become market-leading players. However, the barriers to entry for small technology companies in highly sensitive operational areas are high, and treasurers will choose solutions that do not involve complex third-party and due diligence questions.

⁴ The Economist Intelligence Unit, “Whose customer are you? The reality of digital banking”, April 2018, <http://perspectives.eiu.com/financial-services/whose-customer-are-you-reality-digital-banking>

CHAPTER 3: REGULATORY, MANDATORY

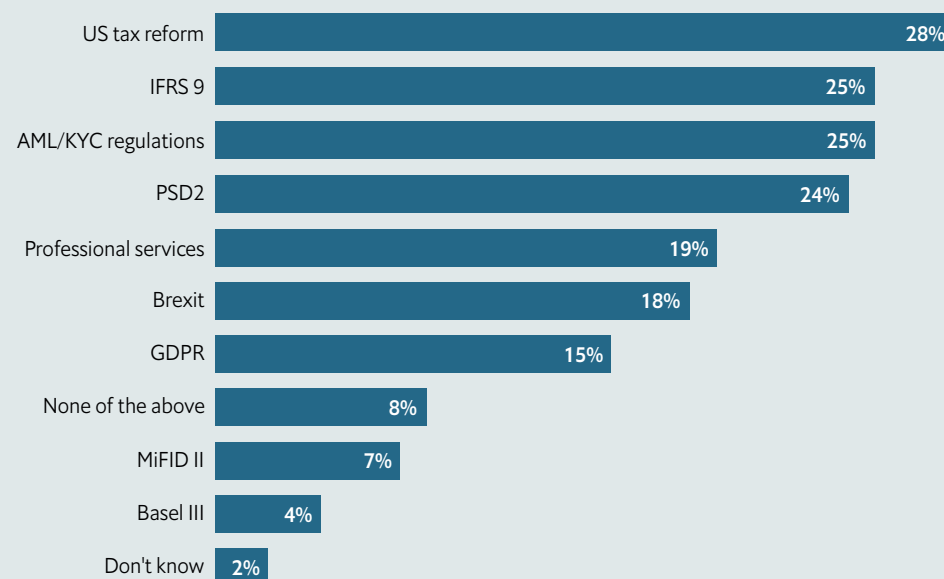
The blue light issue

While responding to technological development is strategically important in the medium to longer term, responding to new mandatory tax and regulatory initiatives is always critical. Treasury has to prioritise legal necessities, as any changes also have the most immediate and direct financial and structural impact. This is particularly the case when there is a major regulatory change in a key global economy.

Chart 9

Which regulatory and government initiatives will most affect treasury over the next 12 to 18 months?

(% of respondents, top two responses)



Source: The Economist Intelligence Unit.

The prominence of US tax reform may be partly attributable to a third of respondents being US-based, but is also a reflection of the significance of the US market and extra-territorial US tax reach for global multi-national companies (MNCs). In addition to a complex set of lower tax rates, it introduces the move to a territorial tax system, base erosion and profit shifting (BEPS) and tax on global intangible income (GILTI). This presents a unique set of opportunities for companies based inside and outside of the US.

For treasury, the changes require quick decisions in areas such as the restructuring of intercompany recharging mechanisms for treasury and shared services, inter-company funding and trading structures, and a review of the structure and location of regional treasury centres and in-house banks.

The perceived significance of PSD2 is surprising as, at first glance, its focus is on consumer protection and legislative harmonisation. Most of the key effects are in the retail space and affect retail banking margins. However, treasurers clearly believe that PSD2 has the potential to bring easier management and overview of cross-border accounts via the same Account Information Service Providers (AISP) and Payment Initiation Service Providers (PISP) mechanisms that affect retail customers. This means that treasury, like household customers, will be able to view all of their multi-bank account details under a single portal. In addition, there is the likelihood that increased competition and transparency will have the same effect in the corporate space as retail: products will improve and their prices will fall.

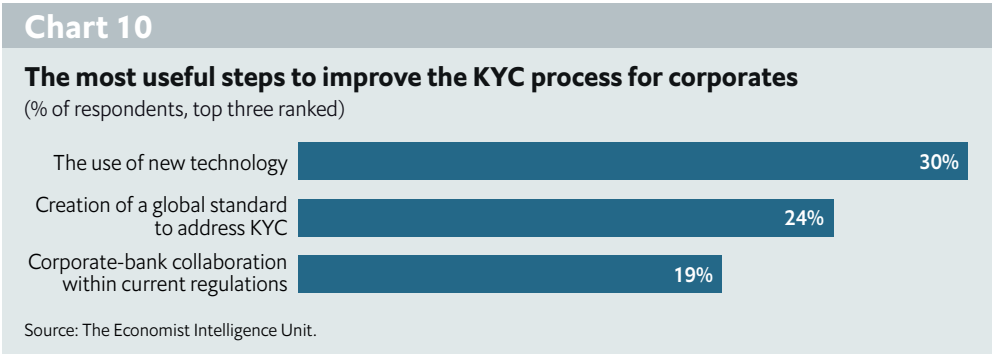
Anti-money laundering (AML) and know-your-customer (KYC) are long-standing challenges for treasurers. The fact that these issues are still of such concern to respondents signifies the level of difficulty banks, corporates and solution providers are having in overcoming them. However, there are possible remedies in the pipeline. For example, SWIFT is undertaking an investigation of the extension of its inter-bank KYC Registry to define a global standard for bank-to-corporate KYC and then to develop a cloud-based utility to help. But these remedies are all still in development and there are still no proven industry solutions to the problems of bank account opening: the duplication of effort that is often required, with the same data having to be sent to multiple parts of the same institution, the manual nature of the process and the lack of standardisation of data required in different countries and banks. Corporates also have no definitive assurance that the confidential data they supply is itself adequately secured once delivered.

Is it the chicken or the egg?

So this leaves corporates still scrambling to deal with an intractable issue. Should the solution to issues like KYC come from new technologies or should corporates and banks collaborate to redesign the process within current regulation? Maybe banks should take on the responsibility and lobby regulators to come up with clearer, easier to implement changes. What else or who else could improve the situation? Intriguingly, while agreeing that corporate-bank collaboration to redesign the process, the SWIFT KYC Registry being widened, and combined lobbying of the regulators by banks and corporates will help, respondents are really looking to new “regtech” solutions to standardise or bridge existing process and issues. This idea of standardisation is also supported at the global level, with respondents citing the creation of a global standard to address KYC as the second most useful process. And, finally, treasury respondents realise that there needs to be better bank-corporate collaboration.

Mark Kirkland, treasurer at aluminium semi-products producer Constellium, thinks that a more co-ordinated and understanding response from the regulators is what is required. “When putting together the regulations, the regulatory bodies need a much more consultative approach and need to be talking to corporates as well.” Mark Venner, treasurer at defence, security, and aerospace company BAE

Systems, notes that “Small companies don’t necessarily have the expertise to deal with regulation and may not have the resource or time to negotiate with banks over the application of regulations.” He also noted that standardisation really is an issue, “We see such inconsistency in the banks’ application of regulations, country to country, on a daily basis concerning MiFID, KYC and AML.”



CONCLUSION: TAKE THE ROAD LESS TRAVELLED

Treasury faces a landscape of unprecedented challenges. A vast and complex ecosystem of technologies and technology providers claim to be able to deliver efficiency and automation in traditional processes and an array of new tools able to turn data into enterprise-wide insight.

The survey suggests that treasurers are cautious about the more expansive claims, waiting for finished products in areas such as blockchain and AI, and prefer to work with technology providers that have chosen to partner with existing banks.

It also seems that there is a difference between treasurers at companies with revenue of up to US\$5bn, and either the very largest global MNCs (and in particular those with the most complex supply chains) or large technology companies themselves. The former, although sophisticated and exploring new options, focus on proven technologies with tangible use cases and tools that require the least in the way of in-house development and customisation. The latter groups have the budget and the in-house technical expertise to understand the cutting edge of the new tech ecosystem. For example, Stripe, with its heavy reliance on engineers, can build their own solutions or tap into the best the market has to offer.

The results also suggest that while treasurers acknowledge the profound changes that technology will bring, many still believe that existing systems will remain the core of their operations for the foreseeable future.

They are also focused more on issues with immediate financial and legal impact. Necessarily this makes regulatory change a higher priority than the very latest technology. This is understandable, but it is those large companies and the tech firms building treasuries from scratch, unencumbered by legacy systems, where experience and example set the lessons for the rest. What emerges from the survey is that treasury still has to do a number of things if it is to be a strategic adviser to the business.

- **Treasury has to evolve.** The old models are still functional but cannot deliver the service levels required in an era of real-time and digitisation. Faith in existing systems is misplaced.
- **Treasury has to be proactive.** It cannot be a passive consumer of technology, but must actively work with suppliers and banks. They must develop their own in-house abilities in areas like APIs or at least be able to work with third-party engineers who can.
- **Treasury teams need to upskill.** Treasury must evolve in terms of upgrading skills and hiring new digital expertise instead of just the traditional finance, tax and accountancy skill set.
- **Treasury must learn better how to affect change.** It must get buy-in from CFOs and CEOs rather than waiting for change to be imposed from above. Treasury leaders must be able to persuade senior management that, as subject matter experts, they are able to understand and drive strategic change.

- **Treasury must demonstrate strategic value.** During times of financial stress, it is easier for treasury to show value, but in order to secure budget for the changes ahead, treasury must show how it can help with implementing a forward-looking business strategy. The digital revolution is also a time of stress, with disruption to both the business and financial market service providers, in which treasury can play a critical role. Treasurers must communicate and demonstrate that value.

If treasurers can overcome these hurdles, then they will be well placed to deliver the digital treasury that businesses need to secure a true competitive advantage for the entire organisation.

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