

Getting Flexible

Treasury's Response to Deglobalisation

The recent publication of the Deutsche Bank-sponsored Economist Intelligence Unit survey, 'Manoeuvring uncertainty: Treasury priorities in a volatile, post-pandemic market', revealed rising macroeconomic concerns within the treasury community. TMI and Christof Hofmann, Global Head of Corporate and Payment Solutions, Deutsche Bank, explore the impact.

With rising protectionism and calls for deglobalisation among the political classes, it's no wonder that the commercial world is searching for new ways of working. Indeed, there have been quite specific moves by businesses to reshore or nearshore supply chains to seek greater security.

For corporate treasury, global instability has brought a raft of new issues with which to contend, on top of an already packed agenda that has seen the function urgently finding ways, for example, of reducing FX risk and optimising short- and longer-term investments.

The new survey comes at a time when change is the only certainty. In answering TMI's questions, Hofmann paints a picture of a world in which forward-thinking treasurers are adopting a flexible approach to tactics and strategies, and leveraging their data through new architectures and technologies.

Tom Alford, TMI (TA): First of all, are we really post-pandemic as the survey title claims?

Christof Hofmann, Deutsche Bank (CH): The level of incidences globally clearly suggests we are not post-pandemic per se, but we are finding ways to live with its ongoing effects, so arguably we are moving into a post-pandemic phase. In many countries, the emphasis has shifted from tackling Covid-19 first and foremost to a

much broader consideration of the macroeconomic situation.

What is top of mind for treasurers and other business functions is how, alongside the impact of the pandemic on supply chains, they are tackling new threats such as the war in Ukraine, the energy crisis, inflation, interest rate rises, and other ongoing supply chain issues. The survey results reflect the fact that none of these issues can be considered in isolation, and that treasurers are now necessarily engaging with that bigger picture.



By **Tom Alford**,
Deputy Editor, TMI

TA: So, from your conversations with clients, are treasurers generally coping with these multiple macro-level demands?

CH: Yes, they are managing well, but it has clearly led to a shift in their priorities. They are not simply continuing to do as they have always done but have quickly adapted to the changing situation. That said, there are some pre-existing trends that continue, perhaps with renewed urgency. The centralisation of treasury – in-house banks, shared services centres and so on – continues to add value because it gives the best visibility over matters such as liquidity and funding needs. And this is happening despite the apparent reversal of globalisation.

As a consequence of the disruptions caused by recent macroeconomic and geopolitical events, there is increased localisation within trade corridors and supply chains. Around one-third of respondents are anticipating a longer-term shift to deglobalisation, but treasurers still need centralised control within that context. Mitigating concentration risk – for countries and companies – is firmly on the agenda now, and the survey reflects how treasurers are using tools such as SCF to actively manage that risk as strategic business decisions redirect their supply chain dependencies.

TA: The war in Ukraine has inevitably increased corporate focus on sanctions screening and compliance. What's the treasury impact here?

CH: The impact will depend on the exposure of the individual company. It is a huge consideration for us as a bank, ensuring compliance with and support for the sanctions regimes. But it's also about helping our clients to withdraw from Russia if they want to, or to help them manage resources where they have trapped liquidity. There are companies that still need to manage their rouble exposure risk, or some that have business partners

or even franchise operations in Russia – or other sanctioned jurisdictions – and they need to manage this. This includes being fully compliant with all related sanctions regimes. There is no latitude for mistakes.

Ensuring the correct approach requires diligence and working with the right partners to know that all payments are being appropriately screened and stopped where necessary. But banks should not be used as a sanctions-screening fail-safe; each company needs to fulfil its own obligations in this regard. This means ensuring it has established effective internal processes and controls. For larger or more distributed organisations, centralisation with appropriate technology is often the best model. And of course, this must be augmented with regular training and awareness courses for employees.

TA: A rather different disruptor highlighted by the survey is the arrival of digital assets and cryptocurrencies, and the concept of data monetisation. Should treasurers be participating now?

CH: While cryptocurrencies are viewed by most treasurers as something to avoid, there is an increasing interest and awareness for both digital assets and currencies as well as the use of blockchain technology. The use of blockchain and DLT can prepare the ground for the eventual adoption of digital money; in treasury terms this will most likely be CBDCs or digital bank liabilities, although the broad usage across banks and countries is still a way off.

We are already seeing increasing treasury interest in blockchain as a means of securely automating trade processes. Where multiple parties are involved, code that is deployed on a blockchain – usually referred to as smart contracts – can deliver automated processes and a single and immutable source of truth into an entire supply chain ecosystem. The pharmaceutical company Roche, for example, launched a pilot project



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using blockchain to automatically trigger payments at key points in its supply chain- and procurement process. The payment execution is currently off-chain – so payments travel via the regular clearing and settlement systems because there is no ability to execute payments on-chain between different banks – but the intention is to cross that final hurdle using multi-bank capable digital money.

In terms of data monetisation, to even be considered this must start with effective data management. In treasury, it means having the right data at the right time to take the right decisions. This could be translated as the need for real-time treasury – often wrongly confused with real-time payments – but the key to monetisation is simply having access to the right information to help optimise internal controls and efficiencies. For data monetisation externally, it depends on the industry and the aims of the business, but thoughts will likely turn to driving client demand and how treasury can collaborate with its business colleagues to achieve this.

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TA: *And with the rapid progress of digitalisation in general in the treasury space, what are the best use cases of data you are seeing, and how can others prepare the ground to their advantage?*

CH: Preparing the foundations for making best use of data is about getting real-time access to both internal and external sources, not least from the banks because it means being able to use real-time balance and payment data to improve working capital velocity, and generally having the data for the right decisions at the right time. But it goes beyond that. One of the biggest challenges for treasury continues to be cash flow forecasting, with inflows in particular being difficult to predict. This is where new concepts such as Big Data, and tools such as AI and analytics have a role to play. Here, it's not just bank data that is used, but also data from national weather services, for example, to help build more accurate and timely forecasts. It's likely that key banking partners will be playing a significant role here.

TA: *Indeed, the survey refers to the emergence of the 'servitisation' or 'as-a-service' model as a top-three trend. What does this mean in practice for treasurers?*

CH: What this means generally is that customers will no longer have to buy machines or equipment outright, but will instead have the option to pay based on actual capacity and asset utilisation. This also allows for bundling services with machinery and equipment sales. In treasury terms, the team members could build their own technologies and try to do as much as they can themselves, but with most departments facing increasing pressure and fewer resources, servitisation is becoming more relevant.

One of the most visible solution in this space currently is BaaS (Banking as a Service). Firms that have no desire to be regulated as a bank can use this model to embed a variety of financial services within their own product and e-commerce offering. More directly applicable to treasury is Deutsche Bank's 'in-house banking-as-a-service' which our clients can use to achieve many of the benefits of an IHB on a proven platform without having to build and maintain it.

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Other propositions in this space are based on workflow, with FX an area of notable interest for treasurers. Many spend a significant amount of time managing their FX positions and hedging, but these activities can be integrated into 'as-a-service' workflow tools, using pre-set parameters to automate execution. These platforms are still single bank-based, but users access a variable workflow tool capable of multiple transactions that is driven and controlled by their own parameters, rather than taking a transaction-by-transaction approach.

It's the difference between offering a solution to clients, and simply offering a product. Generally, servitisation needs to be modular, so clients can take only the elements they need. It's also important for banks in particular not to make servitisation a closed-loop model; it was made clear in the survey that treasurers are increasingly unwilling to be tied to one provider.

TA: *It's understandable as treasurers are facing a rising tide of risk. Do you feel current market volatility has been fully captured by the survey?*

CH: I do wonder what the top treasury priorities would be if we were to run the survey again now, just a few weeks on. Under normal circumstances, in such a short period, we would expect the same outcomes, of course. But the speed with which the current macro environment is changing suggests we might see something different. Our results show FX risk only fourth, and investment portfolio management only fifth, on their list of concerns. With some of the recent interest rate changes applied after treasurers responded to the survey, I think these topics would now be higher up the list as treasuries begin thinking about the development of the interest rate curve, which financial products might be better to invest in, how their profile may have changed, and what tenors are most appropriate now that

rates in Europe have moved above zero for the first time in a decade. Increasing FX volatility will see treasuries thinking more about their hedging approach too. And inflation is forcing consideration of cost positions right across the business, not least with suppliers that may try to renegotiate prices and terms.

TA: *Given that we are all in uncertain times, what's your parting advice for treasurers on navigating the current environment?*

CH: It's vital now for treasury strategy to be reconsidered on a much more frequent basis. The survey shows that supply chain insecurity, inflation, interest rates rises, and FX risk are all now treasury priorities, but all are considerably more volatile than they used to be. Treasurers need to be vigilant to ensure they can quickly adapt to changing risk profiles, and they must work closely with the business to ensure it does not enter into agreements on the basis of long-held but now false assumptions around stability. All this implies continuation of the centralisation journey in treasury is necessary. Indeed, without the central availability and management of data and positions across the organisation, treasury will not have the speed, agility, and flexibility needed to survive. ■

The Economist Intelligence Unit survey, 'Manoeuvring uncertainty: Treasury priorities in a volatile, post-pandemic market' is available in full on the following link:

<https://impact.economist.com/perspectives/strategy-leadership/treasury-connected/post-pandemic-recovery/>