flow

Insights from Deutsche Bank Corporate Bank

Issue 11 | H2 2020

Inside this issue:

Responsible innovation

SWIFT's CEO Javier Pérez-Tasso outlines the company's bold vision to transform cross-border payments in the global financial community

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Shock absorbers

When the previous issue of *flow* was published in June, the world was still coming to terms with the shock of Covid-19. In just a few months, both world leaders and scientists have followed the advice offered by Sun Tzu in *The Art of War* – "know your enemy" – and made progress in areas from mitigating the effects of the virus on livelihoods and economies, to devising an effective vaccine. Meanwhile, society is learning to live with the pandemic and adjust to the economic impact – recent research from US scientists estimates a total cost of between US$8.1trn and US$15.8trn – that will resonate for years to come.

This requires corporate activity to adapt as far as is practicable, and Deutsche Bank's teams around the world have worked closely with our clients and partners to make it happen. Many of the articles in this issue evidence the new 'business as (un)usual' mindset, which is reflected in activity such as our support for healthcare infrastructure projects in Côte d'Ivoire and the work done with state development bank KfW on a €750bn aid package for keeping the lights on at German businesses.

Innovative responses to a crisis are also reflected in our cover interview with SWIFT's CEO Javier Pérez-Tasso. Interviewed by video link due to the necessities of social distancing, he provides insights on how Sibos 2020 is being held as a virtual event for the first time in its 42-year history. Further examples of operational resilience are displayed in features such as the corporate treasury profile of Reliance Industries and, closer to home, in our Mental Health First Aiders initiative.

We hope, as always, that you enjoy the extensive range of topics on the following pages.

Stefan Hoops
Head of Corporate Bank

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"Our job is to take care of everything our customers need to run their back office infrastructure smoothly and efficiently"

Javier Pérez-Tasso, CEO, SWIFT

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"The desire for speed, convenience and security are the most crucial factors in the success of new technologies or methods"

Javier Santamaría, Chair, European Payments Council
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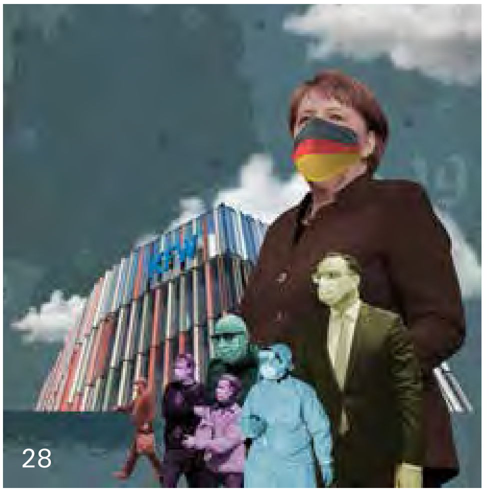
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Covid-19 briefing

On 11 March 2020 the World Health Organization declared Covid-19 a global pandemic. Six months on, different regions are at different stages of their response to the crisis. This article examines its developing impact on households, businesses and governments, drawing on in-depth research by Deutsche Bank

Early hopes that the pandemic would be short-lived, to enable a V-shaped economic recovery, quickly gave way to a recognition that its impact could persist for much longer. Despite this, pessimistic forecasts issued in the spring have since been tempered to a degree. In its *World Outlook: Interim Update and Longer-Term Projections* of 5 August, Deutsche Bank Research noted that global economic activity has picked up faster than was initially envisaged. The Research team's projection in May that 2020 global economic activity would decline by nearly 6% was revised to 4.5%.

For 2021, Deutsche Bank Research expects a bounce back to 5.5% growth, but thereafter the prognosis is for the rate to slow, as unemployment moves back to pre-pandemic norms by 2024–2025. Overall, the team expects "trend or potential growth rates to be somewhat below pre-virus rates" due to several factors that include:

- Ageing populations and slowing labour force growth as baby boomers continue to retire;
- Fiscal drags as taxes are raised to begin to pay for the fiscal support necessitated by the pandemic;
- The virus causing lasting disruptions to activity in some sectors; and
- Likely ongoing disruptions caused by tensions in US–China trade and investment relations, together with the reorientation of global supply chains.

As many reports have noted, the pandemic's impact varies from country to country. China, where cases of Covid-19 were first reported, instigated an early lockdown and its policy was adopted by others such as South Korea and New Zealand, which subsequently eased restrictions while watching for local flare-ups. Elsewhere, particularly in the US and Brazil, governments either lifted lockdowns too quickly or never activated them nationally, and saw figures for new cases rise steeply.

Relative successes

To the possible chagrin of some, Asia "continues to offer the most positive examples of how to suppress the Covid-19 virus and, having done so, of how quickly economic activity can recover," suggest Deutsche Bank Research's chief economists. In their *Asia Macro Insight* note of 14 July they cite China, Hong Kong, South Korea and Vietnam as the region's most successful, as measured by containment and subsequent strong recoveries in consumption. Others, whose lockdowns proved less effective, will see a commensurately weaker rebound. Assuming that the worst of the crisis is behind them, policymakers are expected to transition from providing emergency support to their economies to monitoring the recovery and gradually scaling back stimulus to avoid a 'fiscal cliff' drag on growth as emergency measures are removed.

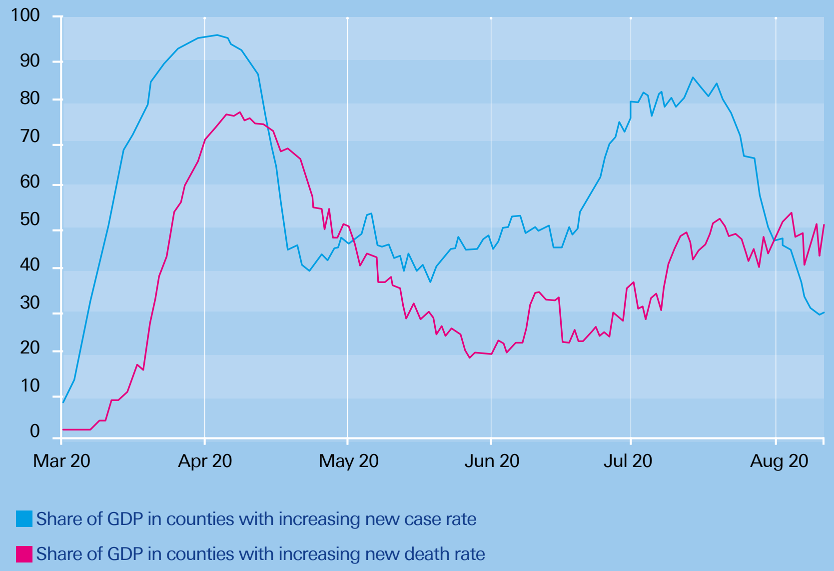
For economies with stronger recoveries and acceleration in asset price inflation – principally China and South Korea – the question increasingly is when do they begin normalising rates? The Research team expects the process to begin in 2021, long before the Federal Reserve or the European Central Bank adopt such measures.

Meanwhile, the International Monetary Fund now forecasts that China will still achieve growth – albeit only by 1.2% – in 2020, and then exceeding 5% in the subsequent five years to comfortably exceed any other major economy.

Eurozone adjustments

In the eurozone, analysts have adjusted their projections for recovery after the economic contraction caused by lockdown proved less severe than was earlier predicted. In its 11 August forecast update, *Euro Area Growth Better in 2020, a Little Worse in 2021*, the Deutsche Bank Research team reports that while Q2 2020 saw a record rate of contraction, the GDP

Figure 1: Percentage of US GDP from counties with increasing numbers of new cases and from counties with increasing numbers of new deaths



Source: BEA, USAFacts, Haver Analytics, Deutsche Bank

> Deutsche Bank Research notes that global economic activity has picked up faster than was initially envisaged

Deutsche Bank Research's Chief Strategist Jim Reid: "The road ahead is paved with debt across the globe. The solutions are not yet obvious." While the 2008 global financial crisis first saw talk move from billions to trillions as essential in preventing collapse, the Covid-19 crisis "has moved us towards $10trn plus being the bailout currency globally".

outcome "reflected a less deep lockdown trough and a more rapid post-lockdown bounce", to be more fully reflected in Q3 data. The team predicts a slightly slower pace of normalisation in 2021 and now expects growth in the eurozone of 4.6% (against 5% previously) and 3.2% in 2022. Recovery will be helped by EU leaders' agreement on 21 July[1] of a €1.74trn seven-year EU budget – the Multiannual Financial Framework – after protracted negotiations, plus a €750bn European recovery fund consisting of a mix of grants (€390bn) and loans (€360bn).

Despite hiccoughs in keeping the rate of new transmissions subdued, Germany has been the region's star performer in its effective response to Covid-19. In his 10 August note, *Focus Germany: How Strong a Q3 Rebound?*, Deutsche Bank Research's Chief German Economist Stefan Schneider forecasts a -6.4% contraction in German GDP this year (against -9% predicted in May), followed by 4% growth in 2021, but he does not expect the pre-Covid output level to be reached earlier than mid-2022. He adds the further caveat that "the pandemic is far from over", and notes that "chances are high that for seasonal reasons and due to less vigilant behaviour in parts of society, infection rates will remain elevated in H2".

A US$1trn+ package

Perhaps the most unanticipated feature of the pandemic has been what *World Outlook: Interim Update and Longer-term Projections* (5 August) calls the "surprisingly persistent spread of the virus in the US". Although setbacks to economic activity "have not been quite as severe as feared", the ability to continue limiting the damage depends on "the ultimate size of the next fiscal package".

The Research team predicts the estimated figure of US$1trn in May is more likely to be US$1.5trn–US$2trn, given the US's poor statistics for new cases of Covid-19 and deaths. The team also believes that the possible availability of a vaccine by mid-2021 will help normalise economic activity and bring it forward to pre-virus levels by mid-2022, compared to a previous forecast of H1 2023. Nonetheless, the shock of the pandemic "will have scarring effects on the US economy, ranging from households preferring to save rather than spend for some time, structurally higher unemployment, and inefficiencies resulting from the closure of a significant number of small businesses".

A rocky road

Behind various rescue packages and financial stimulus measures lies an unpalatable truth, as summarised by

More open to debate is whether the pandemic will bring down the curtain on 30 years of low inflation or, conversely, trigger a bout of deflation. Deutsche Bank Macro Strategist Oliver Harvey predicts the former, and believes this will be caused by the combination of massive government stimulus packages, retreating globalisation, increased bargaining power within certain sectors of the labour market, and the need to reduce large debt burdens. In a *Konzept* article, he posited that European government attempts to keep household incomes stable with job retention schemes are well intended but will result in "more money chasing after significantly fewer goods and services".

The last word goes to *The Economist*, which expects the economic consequences of printing money to finance the stimulus to persist for decades. With output for many economies in reverse, and state intervention replacing what would normally be wages derived from those outputs, the magazine declared in its 25 July leader, entitled *Free Money: When Government Spending Knows No Limits*, that we are witnessing "a profound shift taking place in economics, the sort that happens only once in a generation".

Sources
[1] See https://bit.ly/2YA3X3s at theguardian.com

Regional update

Europe, Middle East and Africa

While Covid-19 continues to contract economies in the region, and leaders grapple with the balance between market intervention and free market policies, bright spots include Turkey's gas reserves discovery and South Africa's inaugural current account surplus, helped by the rising price of gold

The European Union 27

The impact of the pandemic, the departure of the UK and the need to repay planned European Commission (EC) borrowing continue to drive substantial reform of the EU27 bloc's revenue system. The EU's €1trn Multiannual Financial Framework will continue to be primarily financed through the EU's own resources, with the lion's share stemming from members' contributions based on their relative gross national income. In the months ahead, three main questions will influence the EU27 outlook, according to analysts:

- Will the late summer "infections-mobility-growth nexus" persist as more young people contract the virus?
- Are consensus expectations for fiscal deficits in 2021 too low? "Markets may be underestimating the fiscal cost of the pandemic," currently seen as falling from almost 10% of euro area GDP in 2020 to half that level next year. And will larger deficits be funded by member states or by the EU?
- Does the European Central Bank (ECB) have a problem with inflation? Currently expected to remain just below 1% through to 2022, a downward revision to an already weak inflation outlook might concern the ECB.

Germany

Easing lockdown restrictions unleashed stronger-than-expected rebounds in retail sales and industrial data in May/June, say analysts. They cite "catch-up effects causing some likely overshooting" in the data, even with a 3% reduction in VAT from 1 July. However, by the half-year point it was clear that Germany's export-orientated economy suffered not only from its own lockdown, but also from various curfews across the globe. As a result, investments and exports fell by roughly 20% in Q2. As imports contracted by 16%, net trade posted a loss of 2.8% of GDP. The 26 August announcement that Germany's furlough scheme will extend to the end of 2021 removes for now the prospect in H2 of "a strong increase in insolvencies of smaller companies [and] this reality check should also leave its imprint in the Q4 unemployment numbers".

United Kingdom

The UK recorded its first official recession since the 2008 global crisis with the -20.4% GDP contraction in Q2 on the previous quarter. Analysts say the slump ended in May, trimming a 26% drop over the previous three months but still leaving the UK economy 17% below pre-coronavirus levels. They warn that "we don't expect to get back to pre-virus levels until late 2024, given Brexit headwinds and weaker supply potential over the coming years". Nor is fiscal easing set to end, as higher unemployment and uncertainty could see "more targeted support" to ailing industries.

Despite the Bank of England (BoE) Monetary Policy Committee's "appetite for additional quantitative easing (QE) waning", analysts still predict £60bn of fresh QE will be announced in December, while BoE Governor Andrew Bailey "has put market participants on notice – while negative rates may not have been suitable for now, they could be in the future". Analysts also note "the Brexit endgame is close" and believe a deal is likely.

Italy

The EU recovery fund agreement saw Italy emerge as a major winner, say analysts,

The UK recorded its first official recession since the 2008 global crisis

The EU recovery fund agreement saw Italy emerge as a major winner

South Africa recorded its first current account surplus for 17 years in Q1 2020

Images: iStock

with resources allocated to it more than €30bn above what the EC initially proposed. Around €200bn will be available in total, which is "equivalent to five years of public investment spending – or to correcting 13 years of underinvestment relative to the euro area average".

Italy had already announced discretionary measures worth €75bn for 2020 and the government has decided to adopt further expansionary measures. These will expand this year's budget by a further €25bn, bringing the total discretionary measures to €100bn, or more than 5% of GDP. Analysts suggest that €10bn could be used to extend the country's furlough scheme to the end of December. "Postponing the tax deadline will cost about €5bn. Around €3bn is needed by local authorities to cover expenditures linked to the crisis. The rest could be used to strengthen credit guarantee funds for SMEs."

Spain

Of the 'big four' eurozone economies, Spain will see the slowest economic recovery, predict analysts, having recorded a -18.5% contraction in Q2. It "suffers from a relatively greater exposure to services, including tourism, [while] Italy benefits from a relatively greater exposure to manufacturing", and the Spanish furlough scheme is assessed as "relatively weak". In addition, they observe that "Spain is seeing the most aggressive inflection of the epi-curve, with case numbers the highest since lockdown ended."

Poland

Pre-pandemic, the country's gross borrowing requirement was zloty (PLN)140bn (€31.8bn), with almost 100% already pre-financed, say analysts, who believe PLN100bn more may be needed in response to the crisis. Poland also resumed the issue of T-bills for the first time since Q1 2017. Narodowy Bank Polski (NBP) was among the first emerging market central banks to announce a QE programme and started buying local debt in March. "It also remains fairly active in the secondary market so far and had bought PLN102bn in local bonds by the end of July, from which half were bought in government bonds." The NBP has been buying across the curve, "although of late, the focus has been almost exclusively on buying corporate paper [and] the size of purchases has gone down".

Turkey

Turkey again faces "challenging headwinds" as renewed pressure on emerging market foreign currencies combines with its idiosyncratic problems and macro imbalances, suggest analysts, who add that "high upcoming maturing foreign exchange debt for corporates/banks (but also government debt) make a stable currency a necessity." Turkey's deepwater discovery of 320 billion cubic metres in gas reserves, announced on 21 August by President Recep Tayyip Erdoğan, ranks as the largest ever in the Black Sea. While the discovery could supply up to a fifth of Turkey's gas consumption, the impact on the current account will be relatively small, at most reducing the total energy import balance by 10%. As a consequence, and given that production won't begin before 2023, the near-term impact on the lira is likely to be limited.

South Africa

The country recorded its first current account surplus for 17 years in Q1 2020. Analysts cite the main drivers as "improving terms of trade, export rotation to Asia and significant domestic demand contraction, particularly in investment," and point to the trade balance remaining in surplus this year, to the benefit of the rand. Their one main caveat – and the risk to the country's commodity exports – is "production shutdowns in the mining industry", which were Covid-19-induced.

While its Covid-19 statistics steadily worsen, South Africa benefits from the pandemic pushing up the price of gold, which accounts for 15.5% of exports, while a 28% depreciation of the rand in Q1 helped to boost its terms of trade as commodity exports are priced in dollars. A further positive is that South Africa "has seen its foreign assets exceed that of its foreign liabilities in the last decade. This is highly surprising, as the country has been a persistent current account debtor."

Note: Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis, which may prove to be incorrect.

Sources

Deutsche Bank Research reports: *Commodities Quarterly* (8 July 2020); *Focus Italy* (31 July 2020); *Focus Europe* survey (4 and 11 August 2020); *UK Economic Notes* (12 August 2020); *Focus Germany* (10 August 2020); *Data Flash Germany* (25 August 2020); *CEEMEA Research* (3 and 7 August 2020); *CEEMEA Strategy* (10 August 2020); *Special Report: World Outlook – Interim Update* (5 August 2020); *Europe Blog* (21 and 31 August 2020); *Europe Data Flash* (25 August 2020); *Hot Air? Turkey and Natural Gas* (27 August 2020); *UK Blog* (2 September 2020)

Regional update
Asia Pacific

For the ‘big three’ economies of China, India and Japan, two factors dominate the near-term outlook: how quickly consumption recovers back to something approximating ‘normal’, and at what pace that happens in key export markets

Asia was the first region affected by Covid-19 in early 2020 and, as the epicentre of the pandemic has moved to other parts of the world, Asian economies are beginning to relax some social distancing policies. This, analysts note, is “likely to allow domestic economic activities across the region to rebound, although there is still a significant amount of uncertainty regarding the pace at which the economy will recover”. Exports of goods have performed better than expected thus far, largely on the back of electronics exports from North Asian economies. The tech replacement cycle, if not derailed by the broader global growth downturn, poses a significant upside risk to our growth outlook for economies such as Taiwan.

China

With its 2020 growth forecast raised to 1.1%, analysts expect China’s GDP to expand by 8.4% in 2021, although heavy rainfall and floods in South China, which have interrupted industrial production, could, say analysts, “slow economic recovery in H2”. Sectoral divergence is seen as the economy’s main theme in H2 with two sectors, consumer durables and property, identified as those that “could outperform in H2, thanks to a combination of cyclical factors and structural change in consumer behaviour post Covid-19”. Having bounced back in H1, the auto sector began H2 strongly and “is already growing at the pace last observed at its peak in 2016”, without the “big round” of car purchase subsidies that helped artificially boost demand then. The property sector is also set for another boom, with a similar macro environment – big fiscal stimulus plus monetary easing – that has historically provided the trigger, “despite recent measures adopted by several cities to cool down the property market”.

Surging demand for exports of medical supplies and computers in early 2020 has been succeeded by a “substantial recovery in exports of products most negatively affected by the global Covid-19 pandemic”, such as furniture and toys. While apparel exports are recovering more slowly, “it seems that the reopening of the global economy is already boosting the demand for Chinese goods”. However, the US–China trade dispute remains an area of concern. Analysts note that US exports to China are “running well below 2017 levels” rather than those China had committed to in the Phase 1 agreement. Given the current US hard line, this could result in reversal of the modest tariff cuts agreed in January and further increases. Such a development would then reduce China’s exports to the US, together with other Asian economies’ exports to China, which feed into US-oriented supply chains.

China’s rapid restocking and consumption resurgence in Q2 revived commodity prices and will be followed in H2 by “a solid-end demand-led phase underpinned by positive construction trends”, predict analysts. “This will be adjoined by mounting bursts of pent-up ex-China demand as the post-lockdown reactivations ultimately progress,” with copper, iron ore, coking coal and gold among the classes set to benefit most.

Japan

On 17 August, Japan reported that Q2 GDP shrank by 27.8% year on year, the sharpest

Analysts expect mounting bursts of pent-up ex-China demand

Australia’s government outlined an A$185bn deficit for the current fiscal year

Despite a 9.7% contraction in Q2 GDP, analysts believe that Thailand is "on the mend"

Images: iStock

contraction on record, due to the national lockdown. Analysts noted that a late-summer second wave of Covid-19 was causing social distancing to tighten again, reversing the recovery. "There simply isn't the policy space to add more support to the economy that there is perhaps in other large economies [and] Japan's potential growth rate is among the lowest among the major OECD countries," they commented. "Measured by when GDP returns to pre-Covid levels, Japan is expected to experience the slowest recovery among the major economies, achieving that milestone only in 2024."

India

While India acted early to contain the Covid-19 virus, it is among the worst-hit Asian countries. On 15 August, Prime Minister Narendra Modi announced a US$1.46trn investment in infrastructure projects, but analysts expect only about half of the 23.9% drop in GDP over the quarter to June to be recouped in Q3. They also warn that slowdown in the rate of Covid-19 active cases itself carries risk: "As mobility increases, new cases may start to increase at a higher rate, which may once again lead to a further moderation in mobility and economic recovery."

The pandemic has also caused a sharp slowdown in external trade and raised concerns that Covid-19 could impact on investment growth more adversely than consumption, with corporate sector profitability taking "a significant period of time" to return to pre-pandemic levels, even with policy support. Analysts expect India's recovery to be "shallow and uneven, with non-trivial risks that a potential second wave of virus spread may pose a persistent concern for growth". Non-performing assets in banks and shadow banks are expected to rise to multi-year highs, to also drag on medium-term growth.

Australia

In its July economic update, Australia's government outlined an A$185bn deficit for the current fiscal year, which at 9.7% of GDP is the largest since World War II. But analysts note that "in a break from its usual practice of providing projections for a three-year period beyond the budget year, the estimates…stop at June 2021".

Based on the recessions of 1984 and 1991, and the 2008 global financial crisis (GFC), "we see no compelling reason why the recovery trajectory from the Covid-19 recession will be any faster than the post-GFC recovery," they add. "That suggests another decade of deficits at least, albeit they are likely to be progressively smaller than the GDP deficit for 2020–2021." Meanwhile, the economy "is showing extreme divergence". Many sectors "have seen huge pain", but some, such as selected retailers and housing developers, are performing strongly.

Malaysia

Reflecting the Movement Control Order imposed on 18 March 2020 and unwinding from early June, the economy contracted by a record 16.5% quarter-on-quarter in Q2, and was down 17.1% year-on-year. But analysts note that Malaysia has been more successful than Indonesia and the Philippines in containing Covid-19, something that is reflected in "significantly greater internal mobility". Consequently, Malaysia enters Q3 "significantly stronger" than its two neighbours. While analysts expect annual GDP to decline by 7.5% this year, they estimate the economy should grow at or slightly above trend growth in 2021, to "put annual GDP up by about 6.8%".

Thailand

Despite a 9.7% contraction in Q2 GDP and the 12.2% year-on-year fall for April to June, analysts see Thailand as "on the mend". Data pointing to a rebound in economic activity post-lockdown "has prompted policymakers to shift away from emergency mode" and the Bank of Thailand kept rates steady at its August meeting, "despite the downward revision to the growth outlook – to -8.1% from -5.3% for this year". Government spending continues to expand rapidly, while service exports – which are largely tourism-related – "remain significantly challenged". The government expects about eight million visitors in 2020 – in 2019 there were 39.8 million. A tourism rebound is not expected before H2 2021.

Note: Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis, which may prove to be incorrect

Sources
Deutsche Bank Research reports: *Emerging Markets Quarterly: The Aftermath* (11 June 2020); *Commodities Quarterly* (8 July 2020); *Special Report: World Outlook* (5 August 2020); *China Macro* (14 August 2020); *India Economic Weekly* (6 and 14 August); *Australia Macro Notes* (17 August 2020); *Asia Economic Notes* (14 August 2020); *Aussie Macro Insights* (1 September 2020)

Regional update
Americas

By the end of Q2, the Americas had been declared the new epicentre of the Covid-19 pandemic by the World Health Organization, an unwelcome status that has been playing out in economic and policy responses from governments and their central banks across the region

While the US accounts for nearly one in four reported cases of Covid-19 and one in five deaths, Brazil, Peru, Mexico, Colombia and Chile are also firmly established among the 10 countries reporting the most cases to date. Disparities in containment and economic policy responses are most evident in the cases of two regional peers: Brazil (expansionist) and Mexico (austerity). However, by the beginning of Q3, note analysts, "political developments have displaced the monitoring of the recovery as the main subject of interest in Latin America (LatAm)." The Brazilian Senate vetoed the government's bill to freeze salaries for local governments and the Mexican government is trying to force local governments to raise additional resources "to fund their budgets by perhaps allowing Mexico's development banks to help in the restructuring of state and municipal debt". In the US, the Federal Reserve announced its inflation management change on 27 August, signalling a shift in the way it aims to achieve maximum employment and stable prices.

United States

With US economic activity sputtering as the country's Covid-19 statistics steadily worsen, the expiry of the Federal Pandemic Unemployment Compensation (FPUC) programme (introduced in late March) "presents a very real near-term risk to the recovery thus far", warn analysts, who describe FPUC as the first of several "benefits cliffs" that could endanger the momentum for recovery if government support was removed prematurely. States with higher unemployment reported in late July are already seeing lower retail foot traffic. "The evaporation of these benefits highlights near-term downside risks to consumer spending, particularly for lower-income households, which have been a critical engine of the recovery," they add.

On a more positive note, a less severe economic contraction in Q2 than anticipated earlier in the pandemic persuaded analysts to revise their growth forecast for 2020 from -7.1% to -5.2%, with a stronger recovery foreseen in 2021 of 3.1%, against 2.6% before. "If inflation expectations fall, interest rates would decline too. In turn there would be less room to cut interest rates to boost employment during an economic downturn," said the Federal Reserve in a statement on 27 August when explaining why it is aiming for inflation of 2% over the longer term.[1] Analysts say this "makes it clear that this Committee will aim to push labour market slack as low as possible, at least until inflation pressures are already evident in the data".

Brazil

Brazil's economic performance is slightly better than its performance in tackling the coronavirus, suggest analysts, who are "cautiously optimistic on policy direction", but stress that "the slow pace of progress will leave the economy and markets exposed to external and political setbacks that are likely in dealing with the pandemic, economic recovery and reforms". All point to an "improving but choppy trend", with an important debt sustainability hurdle to clear in 2021.

While Brazil's reform agenda is judged among the best in the emerging markets, "it needs to deliver soon as its fiscal situation

Chile has brighter recovery prospects than its LatAm peers, suggest analysts

Peru is one of the few countries that has seen an increase in foreign participation in its bond market

Brazil's reform agenda "needs to deliver soon as its fiscal situation is among the worst" in the emerging markets

Images: iStock

is among the worst", they add. It means that the government "has more to gain among moderate voters by staying this conciliatory course than it could lose among its radical, ideological base by keeping its cool". The tactic is bearing fruit, as calls earlier this year for the impeachment of President Bolsonaro have faded as his approval rating revives.

Nonetheless, there is a "narrow window" for Congress to implement reforms to counteract the high level of government indebtedness with which Brazil will exit the crisis. "Fiscal concerns will hinder investment and, without a substantial reduction of public spending, the economy could face a debt crisis as in 2002," warn analysts. They now expect the economy to contract by 5.2% this year; less bearish than the -6.6% forecast in early May, followed by a gradual recovery, with 2021 GDP growth at 2.7% "on elevated uncertainty and impaired balance sheets – especially in the public sector where debt-to-GDP is approaching 100% by early 2021".

Mexico

The government's response to Covid-19 has been relatively weak, say analysts. President López Obrador has refused to abandon his campaign promise of fiscal austerity, while the absence of a strong public health system has resulted in very limited testing and the rapid spread of the virus. In Q2 2020, GDP fell by 18.9% year-on-year, the largest annual decline since 1981. The contraction was sharpest in industrial production, where output fell 26% year-on-year, while services registered a decline of "only" 18.9% year-on-year. The problem predates the pandemic, as Q2 2020 was the fifth consecutive quarter in which output fell relative to the previous quarter. While the economy seems to have bottomed out, "the speed at which it will rebound remains less clear as services lag manufacturing activities".

Analysts suggest that the reopening of the US economy is the sole factor driving the recovery in Mexico. "In particular, car manufacturing increased 23% month-on-month during July, while car exports rose 31% during the same month. So to the extent that the US's rebound continues, Mexico's rebound might become more robust."

Peru

Thanks to the government's large fiscal reserves, analysts do not expect any quantitative easing in Peru, which is one of the few countries that has seen an increase in foreign participation in its bond market. President Martín Vizcarra remains popular, although Congress has begun impeachment proceedings against him. Analysts say that "threats to confidence votes suggest delays in implementation of investment programmes and a slower recovery".[2]

Chile

With its relatively robust fundamentals, Chile could withstand Covid-19 better and has brighter recovery prospects than its LatAm peers, suggest analysts. It is the region's leader on Covid-19 testing, and top-down fiscal spending automatic stabilisers have kicked in, allowing the government to push through the largest fiscal response as a percentage of GDP. The central bank, Banco Central de Chile, was quick and aggressive in its reaction to the crisis. Yet President Sebastián Piñera suffers from low popularity and political weakness, with the government facing a rebellion in Congress, where the opposition capitalised to push through pension system reform. The bill is "not only an inefficient and regressive way of supplementing the income of households, but also a good example of the types of risks and uncertainties likely to plague Chile's macro backdrop towards the year-end".

Colombia

Colombia's figures for new Covid-19 cases are among the world's worst, but analysts maintain that "compared with its regional peers, Colombia was ahead of the pack in the business cycle, has suffered less from the pandemic, and thus should recover more quickly". The central bank has cut rates more gradually than many expected; in late June, Banco de la República Governor Juan José Echavarría cited "the risk of capital outflows" if it had cut more aggressively, and indicated that the effectiveness of a deeper cut would be limited given that swathes of the economy remained in lockdown, which was subsequently extended in late July for a further month.

Note: Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models or analysis, which may prove to be incorrect

Sources
Deutsche Bank Research reports: *US Economic Notes* (11 August 2020); *US Economic Perspectives* (13 and 31 August 2020); *LatAm Macro and Strategy Focus* (24 July, 7 and 21 August 2020); *Special Report: World Outlook* (5 August 2020); *EM Daily* (30 June 2020)

[1] See https://bit.ly/326rHhP at federalreserve.gov
[2] See https://bbc.in/3c5ze3Y at bbc.co.uk

Piraeus Port
in Athens

A Hellenic recovery

After a prolonged bout of austerity, Greece was on track for an economic comeback before Covid-19. *flow*'s Graham Buck asks whether the pandemic has derailed the recovery, or merely delayed it

It's been 10 years since the International Monetary Fund (IMF) and the EU first agreed a financial rescue package for Greece.[1] Eight years have elapsed since the term 'Grexit' was coined in response to threats that the government debt crisis would trigger withdrawal from both the EU and the single European currency.

After a prolonged bout of austerity, by 2018 Greece appeared to be finally back on the road to economic recovery. In June that year a deal was agreed[2] to wean it off financial dependence on other EU member countries and the IMF. "After eight long years, Greece will finally be graduating from its financial assistance," declared Mário Centeno, president of the Eurogroup of eurozone finance ministers.

"Greece has joined Ireland, Spain, Cyprus and Portugal in the ranks of euro-area countries that turned around their economies and once again stand on their own feet."

A Deutsche Bank Research report issued at that time, *Greece: the Last Deal?*, noted, "The agreement entails stronger monitoring – by EU authorities and the IMF – and [stronger] conditionality than in previous programme exits. In addition to quarterly 'enhanced surveillance' reviews, promises of debt relief and less fiscal pressure will be staggered over time and not granted immediately. The European authorities hope that this will provide the right incentives for Greece to comply with its engagements."

Pro-business policies

And as the new decade got under way, these hopes appeared to be fulfilled. In April 2020, *The Economist* reported that this year began with business confidence "at an all-time high",[3] due in part to the election in July 2019 of a pro-business conservative, Prime Minister Kyriakos Mitsotakis, a Harvard-educated former banker.

The publication applauded the initial reforms of his incoming New Democracy party, which included cutting Greece's "labyrinthine red tape" to make starting a new business easier, reforming labour laws to reduce the cost of firing an employee and proposing a reduction from 28% to 24% in the corporate tax rate. In November 2019, Mitsotakis signed off on a €612m investment by China Ocean Shipping Company (COSCO) in Piraeus Port, Athens as part of 16 trade deals agreed between Greece and China. COSCO plans to develop the port into Europe's biggest commercial harbour. Visiting the company's head office in Shanghai, the prime minister told China's president Xi Jinping that his government was "determined to facilitate foreign investors, attract foreign capital and create wealth and prosperity for all Greeks in a way that is sustainable and protects the environment." The visit was reciprocated, with Xi making an official trip to Athens.

Market capitalisation at the Athens Stock Exchange rose by 47% in 2019, the biggest increase in the world for that year and a personal best for the exchange – although from a low base.[4] In 2019, the GDP growth for Greece came in at 1.9%, the same rate as in 2018, and a bullish government was projecting an acceleration to 2.8% for 2020. By April 2020, the unemployment rate had been lowered to 15.5%, against a peak of 27.5% reached back in 2013.

The prospect of continuing improvement disappeared once the impact of Covid-19 became clear. Even before the first reported fatality in Greece on 12 March, all educational institutions had been closed; soon public gatherings were restricted to a maximum of 10 people and the government ordered the closure of all non-essential retail outlets. On 22 March, by which time the country had over 620 confirmed cases of the virus and 15 fatalities, a national lockdown was imposed, which included the country's hotels.

The actions were effective in limiting the further spread of coronavirus – as of 20 August, the respective figures were 7,934 cases and 235 deaths as the global total neared 23 million cases and 800,000 deaths.


President Xi Jinping holds talks with Greek Prime Minister Kyriakos Mitsotakis in Athens, November 2019

€72bn

The amount earmarked for Greece, after EU leaders agreed on a €750bn Covid-19 recovery fund

Safe haven

"It's clear that Greece has come through the pandemic very well having imposed a lockdown early on, with a relatively low level of coronavirus cases and fatalities," says Nicholas Exarchos, Deutsche Bank's Chief Country Officer for Greece, where the branch has been established for 40 years.

Over this period, the bank has worked very closely with the private sector, banking system, regulators and the government, and it acted as the exchange agent for the landmark €200bn debt exchange in 2012 that kept Greece within the EU. This was the largest debt exchange in history at the time. Additionally, it has assisted the government and the European Stability Mechanism on many occasions in recapitalising Greece's banks. Most recently, Deutsche Bank has been advising the government regarding the privatisation of Athens International Airport.

"The impact of Covid-19 on the economy will depend on the speed and the extent of any global recovery," adds Exarchos. "However, tourism accounts for over 25% of Greece's GDP[5] and the season was already well under way by the time borders reopened to most tourists in mid-June. By autumn it will be possible to take stock of the impact." Potentially the damage will be limited; Greece's coronavirus statistics compare favourably against those of other popular destinations such as Italy and Spain, thus enabling the country to promote itself as a safe destination for tourists.

Nonetheless, the reliance on tourism also means that the European Commission (EC) expects Greece's national income to contract by -9.7% in 2020, against -9.5% for Italy and -9.4% for Spain, despite its more favourable Covid-19 statistics. But – barring the possibility that second and subsequent waves of the virus delay recovery – the country is expected to rebound strongly in 2021, with projected growth of 7.9% against 6.5% for Italy and 7% for Spain.

Alexis Patelis, chief economic adviser to the government, is even more bullish and expects the recession triggered by Covid-19 to be less severe than in many other EU member states. "At its core, this is a crisis that tests the ability of governments to deal with unexpected events, with ripple effects on current and future consumer and investor confidence and trust," he declared at the end of April. As the lockdown measures eased, he subsequently added: "We continue to believe that the more successful a country is in fighting the pandemic, the shorter the economic recession and the stronger the recovery, [and that] hard work, attention

> It's clear that Greece has come through the pandemic very well, having imposed a lockdown early on
>
> Nicholas Exarchos, Chief Country Officer for Greece, Deutsche Bank

Images: Alamy

to detail, consistency and persistence pay dividends."

His assessment was shared by the Organisation for Economic Co-operation and Development (OECD), which was also more upbeat than the EC and IMF in its semi-annual report issued in June. This anticipated a less severe drop of -8% in Greece's GDP this year – only widening to -9.8% in the event a second wave of the virus triggers a double-hit scenario – but also a more modest recovery in 2021 of 4.5%.

"The crisis is hampering loan securitisation activity globally and has delayed steps to resolve banks' non-performing loan burdens and balance sheet pressures, which will continue to constrain growth in bank lending, even as [European Central Bank] ECB measures keep borrowing costs low," the OECD reported. "The sale of state-owned enterprises and steps to attract foreign direct investment are likely to be delayed. In the double-hit scenario, these delays will lengthen. Lower activity and income will reduce tax and social contribution payments, shifting the budget from a substantial primary surplus to deficit. Along with the drop in nominal GDP, this will raise public debt ratios."

The EC's announcement in July of a €750bn recovery fund to assist EU economies hardest hit by the pandemic earmarked €72bn for Greece (with €209bn and €140bn respectively for Italy and Spain). To further mitigate the effects, the ECB agreed to buy Greek government bonds despite their lack of an investment grade rating. The agreement provides Greece with a unique opportunity. "Greece will be one of the largest beneficiaries of the recovery fund in Europe, receiving nearly 20% of GDP in loans and grants over the coming years," says George Saravelos, Managing Director in Deutsche Bank's macro research team. "With the right investments, the funds can be transformational for Greece's productive capacity."

Hercules to the rescue

Greece's road to economic recovery was challenging even before the current crisis. The Deutsche Bank report commented that the potential output growth outlook "remains lukewarm", noting also that the EC *2015 Ageing Report* forecasts the country's working-age population will decrease by 30% (-0.9% year-on-year) between 2020 and 2060. Greece has also experienced a decline in the value of its exports and a shortage of skilled workers following the 'brain drain' of recent years. And while progress has been made in addressing the issue of non-performing loans (NPLs) – Greek banks have worked to reduce their exposure in the past three years – an estimated €75bn burden remains.[6] In January, Parliament approved Project Hercules, an asset guarantee scheme to help the country's banks further deleverage their NPLs without government subsidies being involved.

Against these challenges, Exarchos points to long-term strengths; for example, the shipping industry. Greece has the biggest fleet worldwide and controls 20% of global shipping – which may not always be evident as many Greek-owned ships are registered in other jurisdictions such as Panama, British Virgin Islands, Cyprus and other 'flag of convenience' jurisdictions.

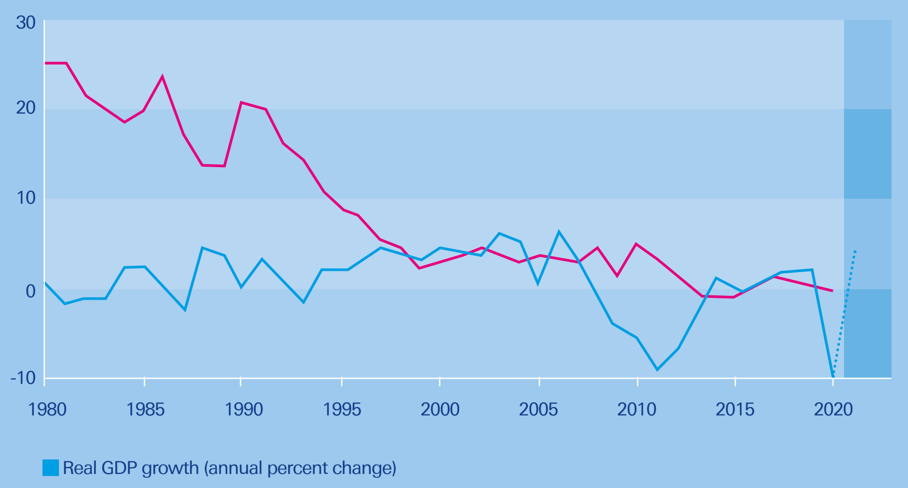
And Elizabeth Koskorou, Deutsche Bank's Head of Corporate Bank and Institutional Cash Greece, reports that Greek banks are ready to embrace digital as a key component for maintaining and growing both revenues and relevance, despite the recent adverse economic conditions. Deutsche Bank is partnering and supporting a number of financial institutions in the country, while the bank's Athens office also proved its capabilities in the early days of the pandemic;[7] for example, by ensuring that payments for much-needed medical supplies went through promptly. In June, it completed a reserve-based lending facility for Energen Corporation to fund its acquisition of the upstream assets of Italy's Enel.

It has been predicted that regained credibility should allow Greece to reestablish itself in the global capital markets. A further positive was the Switzerland-based Institute for Management Development's latest annual report on competitiveness, which found that Greece's competitive position has improved over the past year.

To evidence that its reforming zeal remains unabated, the government marked its first anniversary in July by listing current initiatives. They include a ban on single-use plastics from 1 January 2021, a bill revising the country's corporate governance framework that includes 25% minimum female representation on the board of directors of listed companies, and the introduction of a 7% flat tax rate on their pensions to attract foreign pensioners. There is reason to believe that while the pandemic will strew obstacles on the road to recovery, it won't terminate the journey.

Sources
[1] See https://bit.ly/2ZPr6ib at imf.org
[2] See https://nyti.ms/3iCFtzb at nytimes.com
[3] See https://econ.st/3gHYDBZ at economist.com
[4] See https://bit.ly/2Z9GQxk at forbes.com
[5] See https://bit.ly/3ecXhxp at ekathimerini.com
[6] See https://bit.ly/2O88zZi at structuredfinanceinbrief.com
[7] See the *flow* article 'Bank support during Covid-19' at https://bit.ly/3iSk3y9, db.com/flow

Figure 1: Greece GDP growth and inflation, 1980–2020



Source: www.imf.org/en/countries/GRC

Responsible innovation

How can you connect four billion accounts across the world in an instant? That is the bold vision of SWIFT's CEO, Javier Pérez-Tasso. Clarissa Dann talks to him about the responsibilities vested in a cooperative founded to create mutual benefit for the financial community and why a virtual Sibos for 2020 will keep the global financial community engaged

When Javier Pérez-Tasso took up his role as SWIFT's top executive on 1 July 2019, little did he know that just months later the world would be plunged into the first recession triggered by a pandemic and the deepest economic contraction in decades.

Covid-19 has tested the operational resilience of many an international organisation, but how did what is effectively the banking sector's circulatory system manage? And what effect has the pandemic had on its forward planning? "We have done everything to keep our vital services running smoothly for our customers and support them as they have navigated incredible circumstances," explains Pérez-Tasso. "We have done so while prioritising, first and foremost, the health and wellbeing of our staff and by re-prioritising initiatives to ensure the right focus during this period. And as we look ahead, that discipline will remain as we focus on efficiency while driving growth through responsible innovation that benefits our community. SWIFT, after all, is an industry-owned cooperative."

It is this cooperative status that underlines why SWIFT is so well placed to help the banks in a non-competitive space, mutualising the costs of shared solutions to benefit all members of the community and, ultimately, the payments and securities customers they serve.

SWIFT traces its roots back more than four decades to 1973, when 239 banks from 15 countries formed a cooperative utility to communicate reliably about cross-border payments. The messaging services went live in 1977, replacing the telex technology that was then the prevailing means of confirming payments. Today, SWIFT has more than 11,000 members and carries more than eight billion messages a year. It is also the registration authority for five ISO standards, including ISO 20022, the emerging global and open standard for payments messaging.

This article explores a leader's vision, together with a closer look at SWIFT's overall *raison d'être*: the promise of instant, frictionless cross-border payments from one account to another account anywhere in the world in an instant, with the end-user experience being just as smooth and fast as that of a domestic payment. It also reviews how increasing competitive, economic and geopolitical headwinds could challenge what SWIFT has achieved and explains how these problems could be overcome.

Pandemic practicalities

I had been looking forward to returning to SWIFT's headquarters in La Hulpe – just outside Brussels – to meet SWIFT's new CEO in person. But memories of earlier visits had to suffice. By June 2020, travel restrictions were in full force and, like the rest of the world, we were deploying videoconferencing technology.

Despite the Covid-19-induced challenges that have plagued businesses in the past months, Pérez-Tasso's determination remains undiminished. "I still feel the same way I felt when I took on the role – really energised to be leading the company during this new cycle – because there has never been a better time to work for SWIFT," he enthuses. "I feel very proud to have inherited a company in such great shape, and I am convinced there is much more still to accomplish across both payments and securities, and the way we deliver responsible innovation to the market," he adds.

It is no easy task keeping on top of the needs of all of SWIFT's varied stakeholders in order to sustain their trust and help accelerate their business goals. It requires a permanent spirit of curiosity, a great capacity to listen, and a lot of community engagement. In a sense the CEO role at SWIFT has diplomatic characteristics, given that the company is a global cooperative embracing more than 200 countries. "For the past three months, I have been meeting [virtually] with all our major stakeholders at the CEO/C-suite level to discuss the needs of the market, emerging innovations in the industry, our new strategy and transformation of our platform, and,

Images: Daniel Osorio, SWIFT

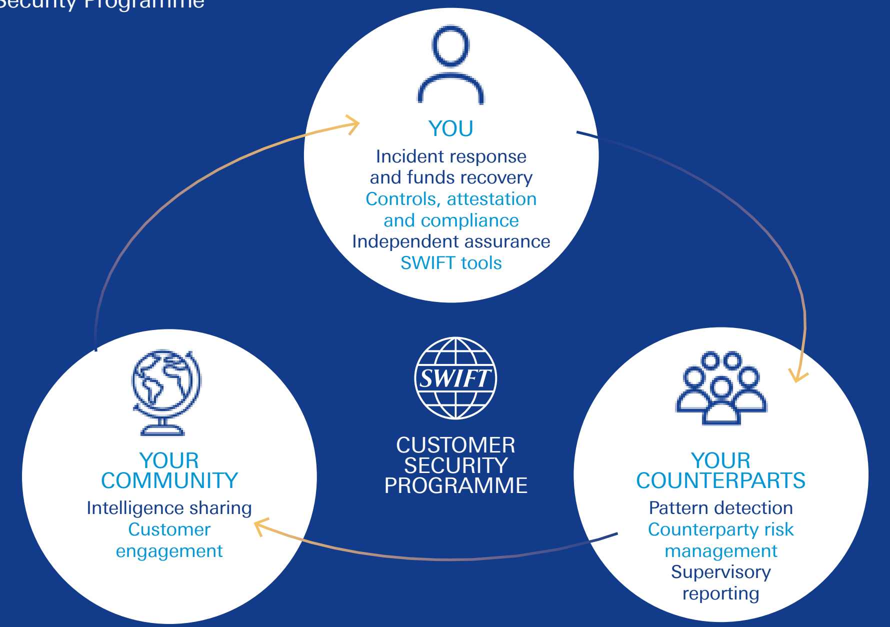


Figure 1: Customer Security Programme

Source: SWIFT

> We are going to aggregate data and use technology such as AI and machine learning to provide insights to customers

of course, the impact of the Covid-19 pandemic," Pérez-Tasso says.

Unsurprisingly, as the pandemic upended the global economy, payment volumes were affected. "As a result we have seen much more modest growth in payments traffic," notes Pérez-Tasso. However, recent market volatility had the opposite effect on post-trade message volumes. "We had four 'peak days' in one week," he reflects. SWIFT recorded its latest peak day on 17 March 2020, with 43.9 million messages. This peak was driven by the securities market, which achieved 24.1 million messages; this being a new peak in the market itself.[1]

The other consequence of the pandemic has been the need to automate as much as possible – from payments at the online shops of SWIFT end-users through to the engine room of payments processing – securely and safely. As the Bank for International Settlements puts it in its *Annual Economic Report* (30 June 2020), "Many technologies aim to improve payment access and security, including the use of biometrics. If anything, the demand for faster, more convenient and safer payments is likely to accelerate with the Covid-19 crisis."[2]

Pérez-Tasso sees SWIFT as a key enabler: "With the strong foundations of the SWIFT infrastructure, innovative technology, and the strength of controls and data services we can provide in the areas of cybersecurity and compliance, meaning you have a winning combination for the back end."

In the beginning

As with Deutsche Bank CEO Christian Sewing, most of Pérez-Tasso's career has been developed at the organisation he now leads. Born in Barcelona in 1970, Pérez-Tasso was only four years old when his father died. Widowed while still a young woman, his mother threw herself into her own further education and that of her family. She raised her young children with help from their grandmother and they went to school at the Lycée Français de Barcelone. His mother's strength of character remains a lasting inspiration. "My mother and grandmother supported us amazingly well through those difficult early years," he reflects.

Training hard across two sports – ice hockey and tennis – was "a great education for leading an organisation such as SWIFT," he says. The experience gave him respect for his competitors. "After all, they had trained just as hard as me. Also, I learned that in life, good things don't just fall out of the sky – you have to earn them." Sport remains an important part of his life today – his children play tennis and golf, and

Javier Pérez-Tasso welcomes 11,500 delegates to Sibos 2019 London

43.9m

Peak SWIFT message volumes, as at 17 March 2020

his drive to achieve precision periodically manifests itself on the golf course in search of a single-digit handicap.

With a leaning towards mathematics and sciences, Pérez-Tasso decided to study electronic engineering at Grenoble Institute of Technology in France – "I have always been interested in how things really work," he says. And he has always set himself challenges. With mother-tongue proficiency in French it would have been easier to do the Canadian exchange year on offer in Montréal, Québec, but he chose McMaster in Hamilton, Ontario, given his desire to improve his English.

By the time Pérez-Tasso had finished his first degree, his mother (who had also been working hard on her studies) had landed a job working for the European Commission, and he moved back to his family in Brussels in the mid-1990s. With five languages under his belt, he wanted to work for an international company and, arriving at SWIFT, he felt he was in just that kind of place.

"On 1 April 1995 I started in the Customer Services Department at SWIFT helping customers install the technology that they needed in order to use our services," he recalls. "And it was here I first came to understand how the back office underpins customer experience by making the front end work better."

Shaping the strategy

Over the next decade, he worked his way up through the ranks of the company. His roles as Chief Marketing Officer (July 2012–August 2015) and Chief Executive of the Americas and the UK (September 2015–July 2019) included defining the SWIFT 2020 strategy and engaging with the world's global transaction banks in order to successfully deliver it. SWIFT had to shape its infrastructure to retain operational excellence and deliver economies of scale safely and securely as transaction volumes grew.

The values that guide SWIFT are, as Pérez-Tasso explains, different from that of a commercial organisation. "We do not seek to maximise revenue – on the contrary, we remove cost from our owners by allowing them to reinvest in the products, services and capabilities that they have already spent many years supporting. This approach has allowed us to work with the industry to define a model that, we believe, reaches the correct balance between meeting the aims of the system, whilst keeping complexity, and therefore cost, to a minimum."

This principle is evident in everything SWIFT does, and the following have been key outcomes of the 2015–2020 strategy that are pillars for the company's onward development journey:

- Cross-border payments: SWIFT's global payments innovation (gpi) initiative is a particular highlight. Not only has gpi significantly accelerated cross-border payments and created new levels of transparency, it is widely regarded as a success story of collective action. By the end of 2019, 65% of cross-border and intergroup payments were sent using gpi – representing nearly US$77trn in value – as the number of live gpi country corridors nearly doubled (the figure was approaching 2,000 by August 2020).
- Securities services: Deploying the gpi capabilities, SWIFT has tightened up processes in capital markets in many operational areas, including settlement and reconciliation, collateral management, corporate actions, foreign exchange and fund processing.
- Real-time payments: In September 2019, SWIFT launched a new service to deliver global instant payments by integrating gpi with real-time service levels into domestic instant payments systems around the world. This built on other successes in real-time payments, including the development of the New Payments Platform in Australia, and several pilots where cross-border payments moved end-to-end in as little as 13 seconds.
- Application programming interfaces (APIs): Significant progress has been made in building a highly robust API infrastructure that handled one billion API calls in 2019,

enabling the community across both payments and securities to interact with SWIFT in faster and more transparent ways.

- Customer Security Programme (CSP): This was launched as a multi-year, multi-faceted initiative in response to the 2016 cyber attack on Bangladesh Bank (see Figure 1 on page 21).[3] By putting in place mandatory security controls and facilitating information exchange, the CSP set out to reinforce the security of the entire global banking system. By the end of 2019, 91% of customers, representing 99% of SWIFT's FIN (core messaging service) traffic, had attested to their level of compliance against the set of mandatory security controls.

Learning from setbacks

When I ask Pérez-Tasso about some of the difficult times SWIFT has faced, such as the Bangladesh Bank heist, he smiles, reminding me of Mike Tyson's response when he was asked by a reporter whether he was worried about rival Evander Holyfield and his fight plan. Tyson's answer: "Everyone has a plan until they get punched in the mouth."

The US$81m robbery was an example of how a security weakness at a client's premises created a vulnerability. "As with any technology, you can be super-secure in the centre, but the edge matters," Pérez-Tasso says. "Once the entry point into a customer's local infrastructure is compromised, it has an effect on the overall trust in the ecosystem. So we have a responsibility to think beyond our own infrastructure – many other infrastructures have had to learn the same thing." The heist was one of the triggers for building the CSP, to raise the bar in terms of security for all of SWIFT's customers and move to new levels in terms of the security required for hosting the infrastructure. In addition, the creation of the CSP helped SWIFT to develop "completely new levels of fraud detection, not just for ourselves, but for our customers".

Part of this new ground involved educating the SWIFT community that information sharing makes for better security. Pérez-Tasso reminds us of the three-step process: "The CSP is based on three main areas. The first is about securing your infrastructure. The second is about accepting the worst can happen – and the worst is that you or one of your counterparties is compromised – so it is vital to detect fraud and act before the funds are extracted from the system. Information sharing is the third one, and it is that experience that allows us to reinforce collective defences across the community, and think about innovation, the future, and all the controls."

Pérez-Tasso firmly believes that it is possible to innovate with a tight grip on risk management at the same time. "We are not just innovating the rails, technology and infrastructure for our customers to connect in an instant to an account anywhere in the world, but we are also focused on those strong controls and foundations around cybersecurity, sanctions, anti-money laundering and liquidity that reassure our customers that this is trusted infrastructure," he reiterates.

A changing landscape

That trust and a commitment to innovating responsibly are key differentiators for SWIFT in a market that is undergoing rapid transformation. What was once primarily the domain of banks and card networks has seen an influx of new competition, from fintech to BigTech to incumbent players, with companies competing to leverage new technologies, processes and relationships as they seek to enter new markets or control more of the customer experience.

In 2018, around 83% of all payments in China were made via mobile payment modes,[4] with Alipay (Alibaba) and Tencent (WeChat) being dominant platforms. They work with card payment providers and form partnerships with other platforms such as PayPal, using their assets to enter the wire transfer and push payments space. Distributed ledger technology had a flurry of interest and has now moved to another level of exploration. Meanwhile, technologies such as APIs and machine learning are maturing, with a host of business models being created off the back of them. All of this, reflects Pérez-Tasso, has completely changed the paradigm of international payments. It has created a vibrant ecosystem where SWIFT, through its broad network, capillarity and unrivalled commitment to operational excellence, sees an opportunity to serve as a global 'back office' that underpins innovation for its community, in order to make the financial world a safer place.

> As with any technology, you can be super-secure in the centre, but the edge matters

Building the future

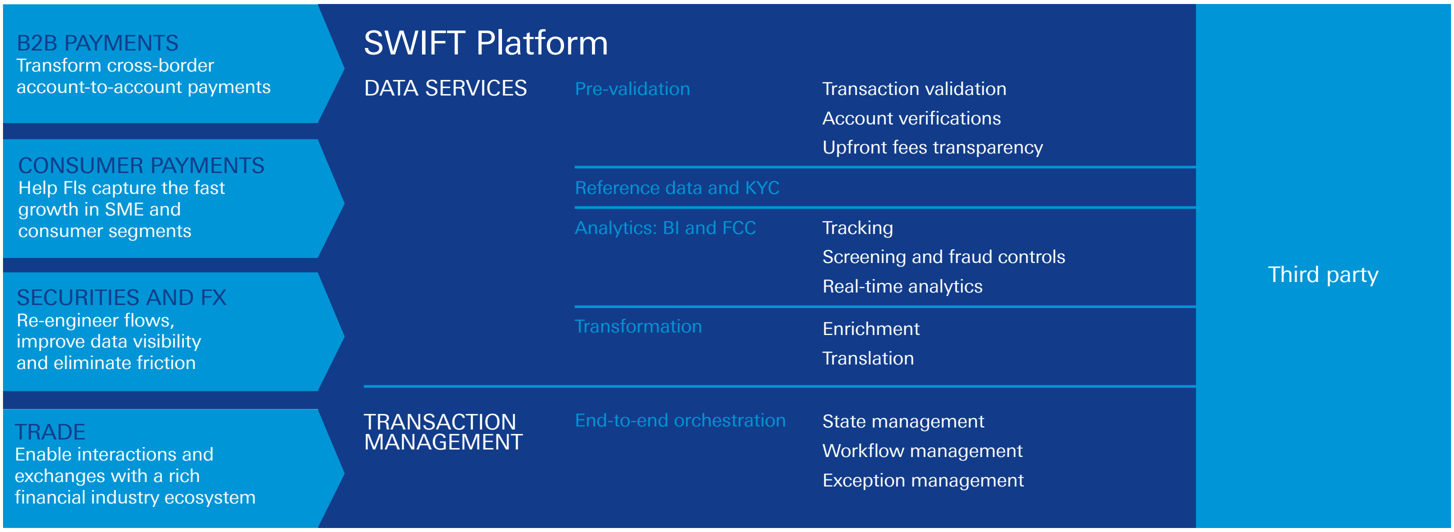
Can SWIFT connect up to four billion accounts around the world in an instant? This is the bold vision for the future predicated on the potential of its extensive global network. "We will build on the foundations that we have today and ensure our platform technology allows our customers to connect with each other through both existing and new channels. The aim is to support our users to innovate and grow market share at the pace that suits their own businesses," explains Pérez-Tasso.

Over the next two years and beyond, SWIFT's goal is to unlock significant opportunities for its community of 11,000+ institutions in both core B2B cross-border payments, as well as in SME and consumer segments. It will also redouble its focus on securities to make processes more efficient, transparent and less complex. The aim is to support all asset types – including tokenised assets – and help the industry improve reconciliation, reporting and asset servicing processes.

SWIFT will do all of this by transforming its platform (see Figure 2 on page 24) to provide a set of common transaction processing services, such as pre-validation of essential data, fraud detection, data analytics, transaction tracking, and exception case management, as well as evaluating going deeper into screening services, thereby mutualising capabilities that today are typically provided by each bank individually. By bringing together data and common services, SWIFT aims to significantly improve end-to-end efficiency and reduce total costs.

The SWIFT platform is configured so that every user can take advantage of the

Figure 2: Scope of the future SWIFT platform



Source: SWIFT

benefits with minimal disruption, providing backward compatibility so that institutions can adopt the technology at their own pace. It maintains full transaction data at the centre, translating between users of different protocols and formats to ensure that no data is lost, corrupted or over-written in the process. Improved data quality along with advanced analytics and insights will, according to SWIFT, pave the way for financial institutions to offer new value-added services and further enhance the end-customer experience. "Rich data is going to be the oil in the engine of this platform," reflects Pérez-Tasso.

ISO 20022 migration

Key to supplying that 'oil' is the industry's migration to the international ISO 20022 standard. ISO 20022 provides a common global language for payments that is being adopted across the world for domestic and international systems. ISO 20022 payments are rich in detailed, structured data, and the global adoption of the standard means that this data can be conveyed without loss from one end of the payments value-chain to the other, even if the transaction goes through multiple payment systems. This data provides the foundation for a new generation of value-added customer services and smart analytics, while also improving the efficiency and effectiveness of compliance processing.

By maintaining complete ISO 20022 transaction data centrally, and sharing that data with transaction participants in their preferred format, SWIFT's platform allows institutions to adopt the standard at their own pace, but also ensures that early adopters benefit from their investment right away, without waiting for the rest of the community to catch up. Starting in November 2022, the aim is to accelerate realisation of the benefits of ISO 20022 for the industry by providing an accessible platform with a straightforward upgrade path that will ensure that every institution in the SWIFT community can participate in ISO 20022 transactions, and those that wish will be able to immediately access the richer data to improve the services they offer their customers.

> We focus on what we are good at by innovating responsibly, and making all that available to our customers so they can innovate

Moving data-rich payments instantly makes huge demands of the 'engine'. It requires fast, low-latency processing and all the services that go with a payment – in addition to the core banking systems – have to respond at the same speed. "24/7/365 operations introduce new pressures in terms of service management, systems maintenance and operational resilience," explains SWIFT in the 2018 white paper, *The Transformation of the European Payments Landscape.*[5]

Future proofing

Security, resilience and reliability have been hallmarks of SWIFT since its inception – and as it moves into a new era of innovation for its customers it's "carrying forward that same relentless attention to operational excellence", according to Pérez-Tasso. What does this really mean? Pérez-Tasso explains that it constitutes a constant drive to stay ahead of compliance and cybersecurity globally, so that everything SWIFT delivers works at scale with the right attention to risk management. We come back to a core theme in the discussion: with SWIFT's model in place, its customers are free to focus on creating exceptional client experiences.

"We focus on what we are good at by innovating responsibly and making all that available to our customers so they can innovate – alone or with fintechs – to provide a great customer experience, but without cutting corners in the back end," Pérez-Tasso says. In other words, the model underlines the vision of SWIFT providing the underlying infrastructure that its customers can tailor to their own requirements. "It is crucial that financial institutions are front and centre for us," Pérez-Tasso stresses. "We are going to aggregate data and use technology such as artificial intelligence and machine learning to provide insights to customers so they can further enrich their experiences with their clients – from B2B customers, corporates and other financial institutions, to consumers."

Reach and responsibility

Choppy waters lie ahead though, stirred by growing economic and political turbulence, not to mention the ongoing disruption caused by Covid-19. The sheer reach of SWIFT's global coverage brings with it huge responsibilities. SWIFT operates in a multipolar world and it is accustomed to navigating geopolitical challenges and the consequences of decision-making by the EU, US, Russia, China and other countries. This is why its neutrality, and its focus on the broad financial community, is so important.

It is that commitment to fostering a global community that has led, in 2020, to the creation of the first all-digital Sibos in the event's 43-year history. Faced with the challenges of the Covid-19 pandemic, and the risk of bringing a massive global audience together in person, SWIFT could have cancelled the event this year. Instead, it determined that in an era defined by social distance it was more important than ever to bring the community together – albeit in a format more fitting with the times.

In keeping with the notion of supporting a diverse and dynamic ecosystem, SWIFT defines community broadly. This year's Sibos (which takes place between 5–8 October) covers topics such as trade digitisation taxonomy, which is not only of interest to financial institutions, but also takes into consideration the impact and opinion of corporates. More than 2,000 corporates are SWIFT members and its strong relationship with that community (mainly at the multinational corporation end) has helped with the development of banking services that, in turn, translate into better experiences for corporate treasurers. SWIFT gpi is one shining example – the engagement of Roche and IATA being covered two years ago in *flow*'s 'Moving swiftly on'.[6]

Other stakeholders in the SWIFT family that have built a Sibos presence in recent years include technology providers and the fintech, payments and start-up community, as is illustrated by the fact that Innotribe, which was launched in 2008, has moved from being a fringe event at Sibos to a mainstream agenda one from 2016.

In closing, I ask Pérez-Tasso for his thoughts about Sibos 2020 given the Covid-19 adjustments. "The 2020 event is available to the full SWIFT community and the focus will be on driving conversations on key issues and emerging industry topics (which include security in the age of Covid-19, the latest on cross-border payments, diversity in investments, digital currencies and tokenised assets, to name just a few topics). This year offers a chance for those who are often tied up in meetings at Sibos to join in the content-rich programme, keep up to date, and maintain dialogue and connections," he explains.[7]

With a continued determination to turn adversity into an opportunity, he adds: "Sibos will be available to even more people within the SWIFT community, as it's digital, free of charge and no travel is required. With the disruption caused by Covid-19, it's more important than ever for SWIFT to bring the community together this year."

New term

After just one year in a job he is clearly passionate about, it seems a tad premature to ask Pérez-Tasso what he would like to be remembered for, when he eventually hands over the baton to a successor. He doesn't miss a beat though when I pose the question. "I want to look back at a stronger, thriving financial ecosystem where SWIFT provides best-in-class payments and securities infrastructure," he says. "Our platform transformation is already well underway, and by the end of my term as CEO, we will have completed a massive upgrade by innovating responsibly, deploying new technologies at scale, and keeping the right focus on risk and controls in place. Our job is to take care of everything our customers need to run their back office infrastructure smoothly and efficiently, so their own efforts can focus on innovating and growing market share across their own business lines."

CV: Javier Pérez-Tasso

SWIFT

July 2019
CEO
September 2015
Chief Executive Americas and UK
July 2012
Chief Marketing Officer
December 2010
Head of Product Management
September 2007
Head of Western Europe, Middle East and Africa
July 2006
Regional Director Europe South West
January 2002
Regional Director Iberia
January 1998
Regional Account Manager
August 1995
Customer Support Analyst

EDUCATION

2011–2012
INSEAD TGM
1999–2000
IE Business School, Masters in Finance
1994–1996
Solvay Brussels School Economics & Management, Masters
1988–1994
Grenoble Institute of Technology, Electrical and Electronics Engineering

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Regchecker

In this latest brief, Boon-Hiong Chan, Global Head of Market Advocacy, Securities Services at Deutsche Bank, highlights key digital assets and data regulatory developments in 2020

DIGITAL ASSETS: SECURITIES, CURRENCY AND PAYMENTS

Distributed ledger technology (DLT) permits the digital representation of finance, with the internet, codes and cryptography as its structure. Regulatory responses complement the industry's growing DLT adoption for continued market safety and soundness.

Digital assets

- The EU's recent consultation on a framework for cryptoassets covered topics such as cryptoassets qualifying as Markets in Financial Instruments Directive (MiFID II)[1] financial instruments, DLT market infrastructure and a separate regime for markets in cryptoassets. A legislative proposal is expected before year-end 2020.
- From May, Japan's amended Financial Instruments Exchange Act permits and regulates cryptoassets with securities characteristics.
- In June, Thailand's Ministry of Finance launched a live '1-baht' scriptless retail DLT bond. Philippines' Bureau of the Treasury followed in July with its 'Bond.PH' retail treasury bond. Both transactions illustrate how DLT's characteristics, such as immutability, are utilised in live deals.
- In July, Luxembourg's government submitted a bill to recognise "secure electronic recording systems" like DLT for issuances of dematerialised securities. It builds on other changes to complete a DLT/digital-conducive capital market environment.
- In August, Germany's Federal Ministry of Finance and Federal Ministry of Justice and Consumer Protection published a draft law for bearer digital bonds, proposing they qualify as securities within the scope of existing regulations while leaving flexibility for other digital securities to be introduced. The draft law will need to enter the legislative process.

Crypto and anti-money laundering

As more mainstream financial institutions launch cryptocurrency-related services, regulators are requiring high standards of crypto-related compliance.

- In January, Germany's BaFin adopted a new regulatory regime for cryptoassets with its implementation of the EU Fifth Anti-Money Laundering Directive. Any virtual asset service providers (VASPs) targeting Germany's market will require a German licence.
- In June, the Financial Action Task Force (FATF) published its review of the revised standards for VASPs. Thirty-five jurisdictions have implemented the revised standards and 15 jurisdictions advise that they have introduced the Travel Rule for VASPs. The next FATF review will take place by June 2021.
- In August, the Monetary Authority of Singapore concluded its consultation for powers to issue 'prohibition orders' against undesirable VASPs and persons, as well as enforcement powers against any VASP targeting the Singapore market.

Digital currencies and payments

New business models and market structures are made possible by digital assets, stablecoins/private digital currencies and central bank digital currencies (CBDCs). Globally, interest in single fiat-backed stablecoins and private digital currencies like Libra continues.

- In March, the International Organization of Securities Commissions (IOSCO) published a report on global stablecoins, highlighting the implications for securities market regulators. It follows the Bank for International Settlements' October 2019 report that identified public policy challenges inherent in global stablecoins, including financial stability, monetary policy and fair competition.
- Different drivers are motivating growing levels of CBDC activity. For example, Cambodia's Bakong would be its national

payment gateway, while Sweden's and China's retail CBDCs would extend digital central bank trust into the payment space. Thailand and Singapore are other economies on wholesale CBDC field pilots, with the European Central Bank, Federal Reserve and Bank of Japan investigating.
- The G20 priority to enhance cross-border payments includes non-bank access to payment systems, interlinked systems and new infrastructure to introduce future dynamics.

Implications for industry participants
Legal and regulatory environments are also increasingly clear for participants adopting crypto and digital assets.

However, compliance adherence is complex and evolving, as with the FATF Travel Rule, and business ecosystems can be unfamiliar. Participants require new tools and expertise to balance growth and risk management. Additionally, as digital transactions generate data, participants must also heed data regulations.

DATA: FROM PRIVACY TO SECURITY, ACCESS AND FLOW

The economic power of data and data analytics is recognised by both public and private sectors. Japan, India and China are among major economies that are updating/have updated their data legislation.

Modernising data privacy and security legislation
- In February, an Indian Joint Parliamentary Committee panel sought public comments on the draft Personal Data Protection Bill, which proposes relaxing data localisation requirements and allowing sensitive personal data (including financial information) to be transferred cross-border, although a copy must be stored in India.
- In June, Japan enacted amendments to the Act on the Protection of Personal Information (APPI), strengthening the rights of data subjects. The APPI is expected to come into force in 2022.
- In July, India's Ministry of Electronics and Information Technology released a draft report – and consultation up to 13 September – on a non-personal data governance framework. Goals include unlocking economic value from data and addressing privacy concerns over anonymised personal data. Recommendations from the report include mandated "open data access" covering commercial and financial transactions, uses of government data, and extraterritorial effects.
- China's draft Data Security Law, published in July, includes data security protection obligations, authorities' access to data for national security, fostering usage of government data to develop the digital economy, opening of government data and extraterritorial effects. Data privacy should be further enhanced by the Personal Information Protection Law, with a draft expected shortly. Additionally, the groundbreaking Civil Code, which is effective from 1 January 2021, will strengthen the protection of personal rights and information.

> Increasing cyber attacks and security concerns are prompting national authorities to require access to in-scope data

Regulatory access to data
Increasing cyber attacks and security concerns are prompting national authorities to require access to in-scope data, regardless of where it is stored.
- Regulators' concerns are reflected in IOSCO's May consultation on outsourcing principles for operational resilience, which covers security, confidentiality of information, and regulator's access to books and records, including the ability to obtain relevant information promptly. Consultation ends in October.
- Existing access requirements include the US Securities and Exchange Commission 17a-4 Rule for broker-dealers to preserve records in non-rewritable, non-erasable (WORM) format.
- The October 2019 Hong Kong Securities and Futures Commission circular, with rules on external electronic data storage, is also live (with an end of 2020 compliance date). It requires preservation of regulatory records and includes further requirements for the exclusive storage of records by a provider based outside Hong Kong.

Enabling cross-border data flows
Restrictions on data flows across borders mean authorities are actively initiating mechanisms that enable a more free flow of data that is essential to commerce and finance. These initiatives include:
- The 'Osaka Track', launched under Japan's G20 leadership in 2019, which seeks to promote "data free flow with trust", and aligns with the World Trade Organization's rules for electronic commerce.
- Other initiatives include the multilateral APEC Cross-Border Privacy Rules, the voluntary ASEAN Certification approach, bilateral equivalence such as that between the EU and Japan, and the ASEAN Model Contractual Clauses approach, similar to the Standard Contractual Clauses used in the EU for data transfers to non-EU jurisdictions.

Implications for industry participants
Data and privacy regulations are important considerations for data-related business models and products. Participants also need to pay attention to their nexus with areas like cybersecurity, outsourcing, civil laws, cross-border flow mechanisms and digital assets to navigate them. Privacy-preserving technologies – like Homomorphic – could help manage some of these risks, yet they add to regulatory considerations.

Data localisation requirements mean tailoring infrastructure and enterprise controls that can result in some loss in synergies and robustness of risk frameworks. Restrictive data practices' implications on data sets need to be factored in.

Extraterritoriality increases compliance infringement and penalty and reputation risks, and this set of regulations needs the focus of senior management. Working with expert cross-discipline teams can turn data compliance into an effective business enabler and competitive differentiator.

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Germany's lockdown lending

Germany's €750bn aid package to help its businesses through the pandemic includes a loan scheme run by state development bank KfW and the commercial banking sector. *flow* talks to KfW's Ingrid Hengster, who provides insights into how the scheme was set up and the difference it has made to future viability

When Germany went into lockdown on 22 March 2020, the ensuing economic shock and disruption to its business community was in danger of holding Europe's largest economy back for decades.

Chancellor Angela Merkel was not going to let that happen. A €750bn aid package was approved three days later to mitigate the direct effects of the Covid-19 outbreak, despite the emergency measure requiring a suspension of the German government's debt ceiling so that it could take on a further €156bn in 2020. This prompt action to futureproof its economy, together with its overall management of the pandemic, has been regarded as offering a blueprint to other countries.

Deutsche Bank Group Chief Economist David Folkerts-Landau observed in his research report *Focus Germany: Covid-19 – Crisis Resilience Made in Germany* (10 June 2020): "Germany's often ridiculed fiscal frugality during the good times prior to the pandemic gave it the firepower to respond and will make it possible to come close to achieving the stated goal that no one should lose their job and no business should have to close its doors."[1]

The measures cover compensation for employees, the self-employed and those on social security, and tax assistance measures. Included in the support was a range of loans and guarantees from Germany's state development bank, KfW, delivered via its established commercial bank partners (it does not take deposits from citizens) – see Figure 1 on page 31. Banks from all three pillars of the German banking system – savings banks, cooperative banks and private banks – were eager to be part of their country's economic rescue plan.


KFW

As one of those partners, Deutsche Bank received more than 5,300 Covid-19-related enquiries, including more than 2,000 specific credit enquiries, at the start of the aid programme.[2]

Based on an interview with Ingrid Hengster, one of KfW Group's Executive Directors overseeing the lending programme, this article charts the project's journey from initial planning to roll-out and beneficiary impact.

"I sensed how big the crisis could become after seeing the images from China and watching the first infections emerge in Italy, and later Germany," recalls Hengster. "As a result, we were already working with the government on a response in February, well before the shutdown was ordered in late March." Once the call to action was issued, she adds, "We did not have the time to sit down and analyse the situation in great depth. Speed was of the essence. Jointly with our partners, we quickly rolled out a wide-reaching programme that delivered massive support to companies of all sizes – from smaller businesses to the DAX companies."

Around the clock

From February 2020 onwards, all the institutions involved were working around the clock. "Looking back, it's quite astounding to see how much was accomplished in a very short time," says Hengster. She ascribes this to the focused teamwork between KfW and all its partners in the German government, the regulators, and the commercial banks, such as Deutsche Bank.

She continues: "I'm extremely appreciative and proud of our teams at KfW for their amazing work. I am also very grateful for the intense exchange with the credit institutions like Deutsche Bank and others, and I want to thank Deutsche Bank for their cooperation. While our collaboration was already very good in the past, this crisis has brought us even closer together."

KfW handled the switch to remote working quickly thanks to robust business continuity management planning, increasing its remote workplace capacity from 800 employees pre-crisis to more than 2,000 within a couple of days. Currently, up to 90% of all staff can work from home at any time.

Hengster pays tribute to colleagues who juggled extra hours to process what were called "the Corona loans". Many have young children who suddenly had to be educated at home, although her own son is a teenager and did not need such an intense level of parental supervision. While she understands that a combination of remote and office working will be the new normal for all of us, she admits that she feels more at ease in the office. "I enjoy the direct exchanges with my colleagues, as I appreciate the personal impulses and interaction," she explains – her role being one that could not entirely be performed remotely.

Spirit of the Marshall Plan

KfW sees itself as being "useful wherever market weaknesses occur that can be mitigated effectively and efficiently with the specific instruments of a promotional bank"; "promotional" having the sense of promoting business and exports. These instruments are generally low-interest loans, guarantees, equity investments and grants.

> The German government is doing exactly the right thing by providing short-time work allowances and liquidity assistance

Christian Sewing, Chief Executive Officer, Deutsche Bank

It was founded in 1948 as Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction), and the early years of KfW Group were closely connected with the post-war economic development of the Federal Republic of Germany. Its formation followed US Secretary of State George C Marshall's announcement of a financial aid programme for Europe (the European Recovery Program,[3] also known as the Marshall Plan) after the devastation of six years of war.

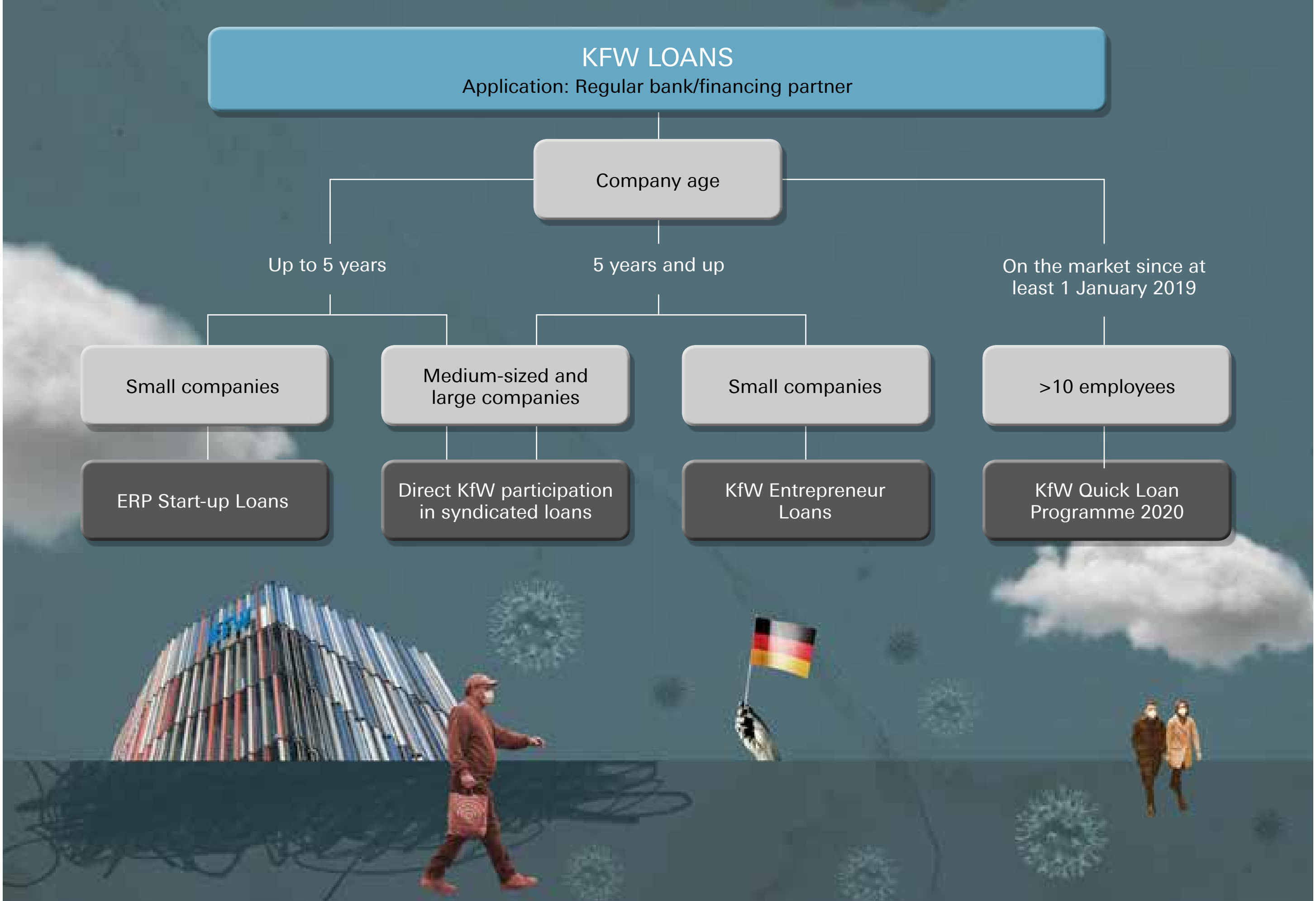
Germany needed food, commodities and materials worth around US$1.4bn (€9bn/US$10.3bn today), so purchase price payments for these imports then had to be used as so-called 'counterpart funds' for investments made through KfW. By the end of 1953, the bank had received several instalments totalling around €1.89bn, which it could then begin lending.

The partnership between KfW and the private banking system dates from this period, when these huge amounts of money were being invested to rebuild the country. "The system was created to use the individual strengths of the commercial banks and the public development banks," explains Hengster. "It's known as the 'local bank principle' and it takes advantage of the close relationship banks maintain with their customers all over Germany. For KfW, it means that we do not grant loans directly, but rather our clients receive the loans through their local bank. In this manner, we can rely on their expertise in assessing creditworthiness and risk, as well as providing the balance sheet capacity."

Applying for loans

Asked by German newspaper *Der Spiegel* on 25 March if Deutsche Bank was the "bottleneck" when turning around the Corona loans (small businesses in particular were struggling because they could not get funding quickly), Head of Corporate Bank Germany Stefan Bender emphasised that creditworthiness checks are essential, and processes have been simplified considerably from what was originally a two-stage set of checks. He added: "KfW relies on our assessment for loans of up to €3m. For amounts between €3m and €10m, the requirements for the loan application have been streamlined significantly. KfW will only check support loans that exceed €10m."[4]

Figure 1: KfW's range of 'Corona loans'



Source: German Federal Ministry of Finance

Dealing with the sheer volume of applications would not have been possible had the process not been largely automated. Another KfW Director, Markus Merzbach, confirms that "KfW has already invested a great deal in digitalising the application channels in recent years." Companies can apply for loans under the Covid-19 aid programme through their usual bank or another commercial bank. Options are the KfW Entrepreneur Loan, the ERP Start-up Loan – Universal, syndicated financings and the 2020 KfW Instant Loan.

Hengster reflects: "For the German government, it made a lot of sense to build on these well-established and tested procedures, processes and infrastructure to distribute the emergency funds. Of course, we had to follow the guidance of the Temporary Framework of the European Commission. For example, a company was not eligible if it experienced financial difficulties before the end of 2019, and it had to be able to demonstrate that it was healthy at the time of applying. This allowed us to offer 80–90% backing, and even 100% with the Instant Loan programme, which is a new product that was developed within days." The European Commission agreed that the loan scheme was in line with state aid rules and then approved it under the EU's Temporary Framework for state aid measures to support the economy in the current Covid-19 outbreak.[5]

"It is particularly important that the ECB and the European Banking Authority are now giving banks more flexibility to support their customers," said Deutsche Bank CEO Christian Sewing in an interview with German Sunday newspaper *Frankfurter Allgemeine Zeitung* published on 16 March. "In principle, policymakers still have more leeway than the central banks, especially in countries like Germany, with its budget surplus. Short-term assistance for affected companies is important.[6]

"The German government is doing exactly the right thing by providing short-time work allowances and liquidity assistance," he continued. "The experience of 2008 can help to cushion external shocks in this area."

After the scheme had been in operation for three months, loan application volumes

German SMEs have been very healthy over the years and deserve their title as the backbone of the German economy

Dr Ingrid Hengster,
Executive Director, KfW Group

topped €54bn and KfW had received 83,000 applications (and rising) from all over Germany. SMEs, reports Hengster, account for 99% of all loan applications and the median loan amount is €120,000.

"These businesses have been very healthy over the years and deserve their title as the backbone of the German economy," she explains. "Many of them are hidden champions and global market leaders in their fields. They have increased their equity significantly since the financial crisis of 2008 and the average equity ratio amounts to an excellent 31.2%. That makes them quite resilient to the crisis. Our research has shown that the SMEs' reaction to the crisis has been creative and flexible: 57% have already adapted their product offerings, sales channels or business models, or intend to do so. And we are confident that others will follow."

Crisis and innovation

In a June 2020 report titled *Innovation in a Crisis: Why it is More Critical Than Ever*,[7] McKinsey revealed that its survey and interviews with more than 200 organisations of various sizes show that "many companies are deprioritising innovation to concentrate on four things:

€54bn

'Corona loans' application volume as at August 2020

(KfW)

shoring up their core business, pursuing known opportunity spaces, conserving cash and minimising risk, and waiting until 'there is more clarity'". Unsurprisingly, the only industries that showed an increase in innovation were the medical and pharmaceutical sectors.

Digitalisation and further automation were already seen as important trends before the pandemic, notes Hengster, and the crisis has, in her view, accelerated the progress out of necessity, "increasing the sense of urgency about the need for innovative and digital businesses in Europe that can drive new technologies forward.

Images: KfW, Benne Ochs

"In a way, we were shown an alternative future – one that many of us had not thought possible," she continues. "Many people dropped their resistance to remote work, companies retooled their production to manufacture medical equipment, and schools made materials available on digital platforms. Not everything was perfect, but due to coronavirus, many of the excuses for not undertaking new developments will no longer be valid."

In other words, nimble organisations that have shown they can deal with transformational change need to sustain the momentum and take the opportunity to "jump-start innovation in the fields of sustainability, in particular climate change and digitalisation. These were already our priorities at KfW and we will pursue them energetically," Hengster adds.

The future

Despite the promising initiatives to find a vaccine, in Hengster's view, the virus is going to be with us for quite a while. Nevertheless, she says, "I am impressed by how forward-looking companies are dealing with this situation and challenges and how creative they are in reshaping their future."

As our interview concludes, it is clear that both Hengster and KfW as a whole are determined to be part of that future. "People have a natural survival instinct and an ability to adapt to changing circumstances. I believe in the ambition, resilience and creativity of the human being," she declares. "Challenges remain, but I am looking forward to pursuing our goals together with our counterparts in government, our partner banks – like Deutsche Bank – and our colleagues at KfW."

Dr Ingrid Hengster is Executive Director of KfW Group

Details of KfW's coronavirus loans for companies can be found at https://bit.ly/2PbljyP, kfw.de

Gerd Schulz and his wife in front of the Strandhotel Seerose

Case study: Strandhotel Seerose

Hotelier Gerd Schulz bought a premium property on the island of Usedom, in Northern Germany, for his hotel on the edge of Loddin East Beach in 1991, and so it was that the Strandhotel Seerose was born. Three years ago, when Schulz took out business closure insurance, he did not tick the 'epidemics' box. "That a global pandemic like coronavirus could affect me and the entire industry was beyond my imagination at the time," he admits.

The hotel had its best year ever in 2019 and there were signs that 2020 would even beat this record. Schulz, who holds a degree in engineering, reported full booking calendars and an above average occupancy rate. Even revenues in the winter months of January and February were 120% higher than in the same period last year. And then coronavirus hit. The last day of work for 90% of his 73 employees was 18 March 2020. "We still had a full house then," says Schulz. "Business was booming." He continued to pay his staff as usual for the month, but from 1 April had to send them home with reduced pay under Germany's short-time work scheme.

The hotel and hospitality industry has been particularly hard hit by the containment measures. More than 11,000 overnight accommodations in Germany and over 71,000 restaurants are currently struggling to survive. "Still, every case is unique; the individual business models of hotels and restaurants are very different," says Marcus Thiel, Head of Promotional Funds at Deutsche Bank.[8] "We see our role primarily as an adviser to our customers, with a focus on securing liquidity. It was a challenge for us to manage the overnight increase in demand for KfW loans and to make KfW promotional funds available at short notice to all our 900,000 corporate customers."

A combination of the KfW loan and the launch of a prepaid voucher scheme that guests could redeem once the hotel reopened has helped Schulz and his family survive during a testing time.

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Trade and the virus

As Covid-19 sends global trade growth backwards, and accelerates nationalism, speculation mounts as to what the recovery might look like in a world where the arms trade tops the industry trade growth charts. Dr Rebecca Harding shares insights from Coriolis Technologies

Which letter of the alphabet do you prefer to describe the pending economic recovery from the Covid-19 pandemic: V-shaped? U-shaped? W-shaped? L-shaped – with no recovery at all? Or my favourite, a flattening V-shape, what investor George Soros termed "an inverted square root sign". That certainly covers everything, but can the shape of the recovery help sweeten the shock of a pending global economic crisis?

Structural shift

This debate has been doing the rounds globally since economists first realised that the crisis was not going to pass with only a few temporary supply chain disruptions, and that something major was happening to the global economy.[1] Despite the fact that forecasts for global growth had actually been quite positive at the start of 2020,[2] the world's manufacturing ground to a halt during the early part of the year, inventories collapsed and some 95 countries around the world imposed export restrictions on key medical and food supply chains in order to ensure that their national interests were protected.[3] It is no surprise that the World Trade Organization expects trade values to fall by anything between 13% and 32% during 2020.[4] By May, trade volumes had already shrunk by an estimated 17%.[5]

Whatever hieroglyph might be used to illustrate the post-Covid era is immaterial compared with the scale of the structural change that the global economy, and global trade, will go through post-Covid-19. Shifts to greater digitalisation and the shortening of supply chains are trends that have been evident for some years now. The need to keep trade, and trade finance, moving through the crisis has accelerated implementation of digital technologies, and greater distribution of supply chains across the world to reduce inventory dependency on single sources is an obvious reaction from the sector itself. All of this is irrespective of the consequences of greater protectionism and the continuing trade war between the US and China.

There are few precedents upon which to base a forecast for trade, but the simultaneous collapse in oil prices, equity markets and global trade through Covid-19 is redolent of the 2008–2009 global financial crisis (GFC). The projections presented here use momentum projections from 2019–2023 adjusted for the rates of trade growth between 2008–2009 and 2009–2012.[6] While the merits of this could be debated, adjusting the forecast for the patterns after the GFC allows us to see what would happen to trade if the recovery followed a similar V-shaped pattern for the initial recovery, with a subsequent slowdown in the rates of trade growth as the Asian economies became more integrated into the global trading system.

Of course, there are a number of significant differences between the present and the GFC. For example, the shift of trade to Asia that occurred after the last financial crisis cannot be assumed to be likely during the recovery from Covid, not least because of the ongoing trade war between the US and China. The structure of trade has also changed with China's growth over the past 12 years – there is now greater electronic hardware to support digital communications, as well as biopharmaceutical trade evident in the data. China itself is consuming more in the way of luxury items such as cars. Europe's internal market has changed; there is more internal trade and the EU only has 27 members since the UK voted to leave in 2016.

Oil shock

It is the collapse in oil prices that is likely to cause the biggest shock to trade during 2020 (see Figure 1), and the major oil exporters in the G20 will be hardest hit.

Oil-producing economies are experiencing their fourth oil price shock since 2008. Within the G20, Russia and Saudi Arabia are the worst affected, and are likely to see their value of exports decline by around 38% and 45% respectively. Neither economy has the economic resilience to withstand this pressure: Saudi Arabia's oil dependency undermines its attempts at economic reform while the price of oil remains at below US$70 a barrel. It has never recovered its economic growth after the oil price collapse in 2014 and 2015. Russia's imports are also set to decline, and by more than exports, suggesting the drop in oil revenues will have a major impact on demand in the economy.

The issue, however, is less about how much the economies will be affected in 2020 and more about how quickly they can recover (see Figure 2 on page 36). While major oil exporters may continue to see slower growth in their export revenues, Saudi Arabia's imports look set to recover fairly quickly, with this recovery set to be the most rapid of any country in the G20. This may suggest an increase in overall demand in the Saudi Arabian economy, perhaps pointing to a longer-term shift in the economic base of the economy, such as a shift to services trade, which is excluded from Figure 3 (page 36). For Russia, however, the trade picture is bleak up to 2023, indicating an underlying weakness in the economy. The International Monetary Fund (IMF) is predicting a collapse in GDP growth of -6.6% in 2020.[7]

Asian resilience

The economies that have grown rapidly in trade terms since the GFC – China, Mexico, Turkey, South Korea and the US – should be able to recover from the current crisis well. It does not appear that the long-term impacts of the trade war or Covid-19 on China's trade will be substantial, perhaps because China itself is increasing its trade rapidly with

> This economic crisis is a policy-induced downturn and not caused by financial, or even initially economic, instability

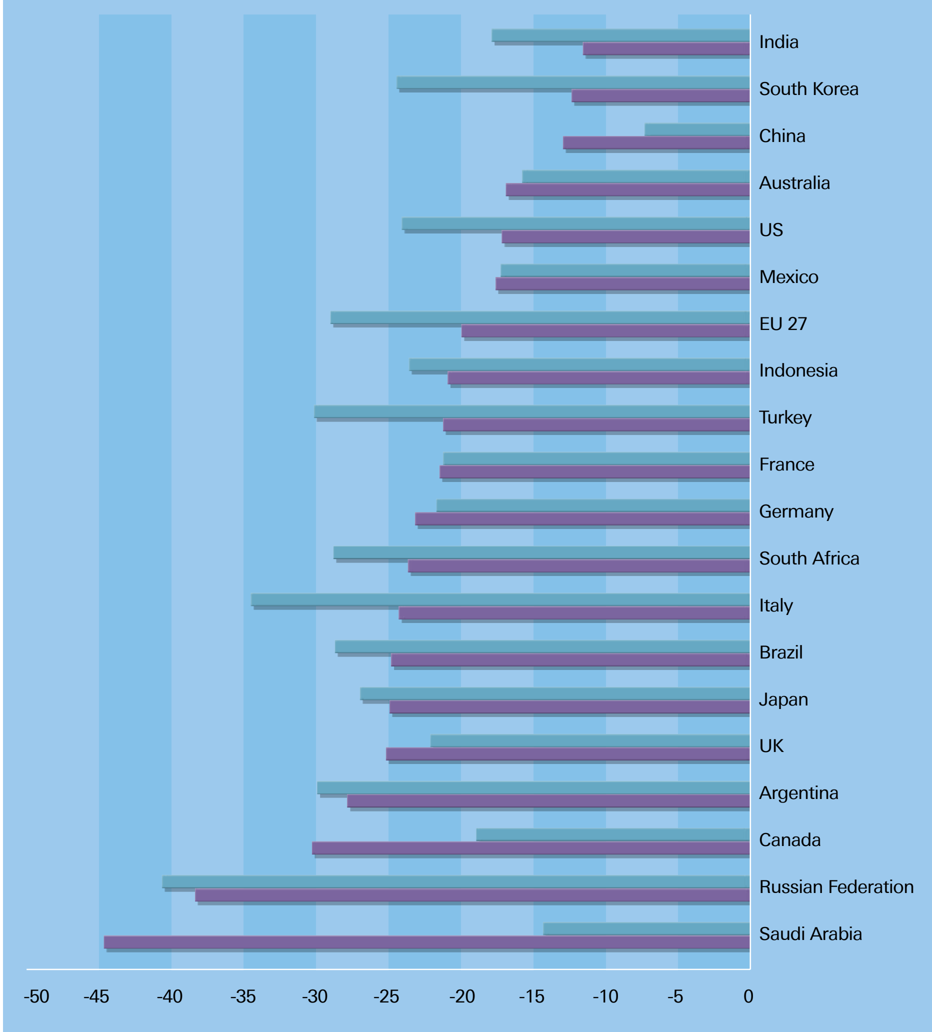
countries across the Belt and Road and the Association of Southeast Asian Nations region in particular.

For example, China's trade with Vietnam is likely to increase at an annualised rate of over 10% up to 2023, while its trade with Mexico (which was in intermediate goods to support US supply chains) is projected to fall back over the same period. China's resilience comes from the sheer size of its trade presence in the world.

EU bloc

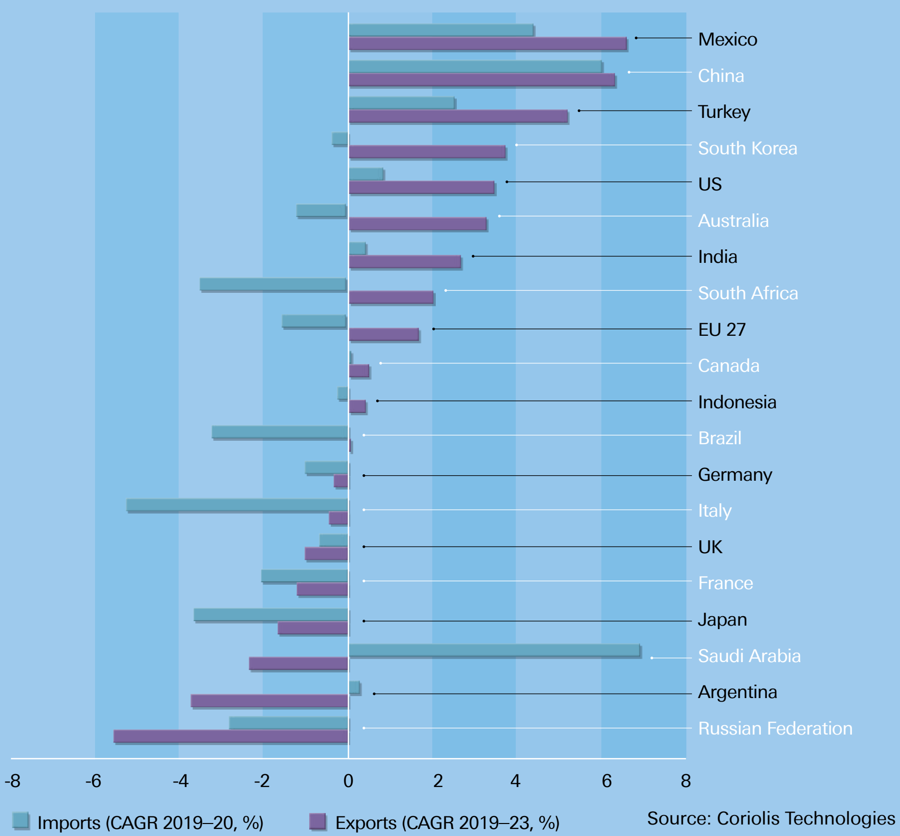
Intra-regional trade growth within the EU27 is the underlying trend here, with its exports set to increase and its imports decrease on an annualised basis over

Figure 1: G20 countries' trade: projected change in exports and imports, 2019–2020 (%)



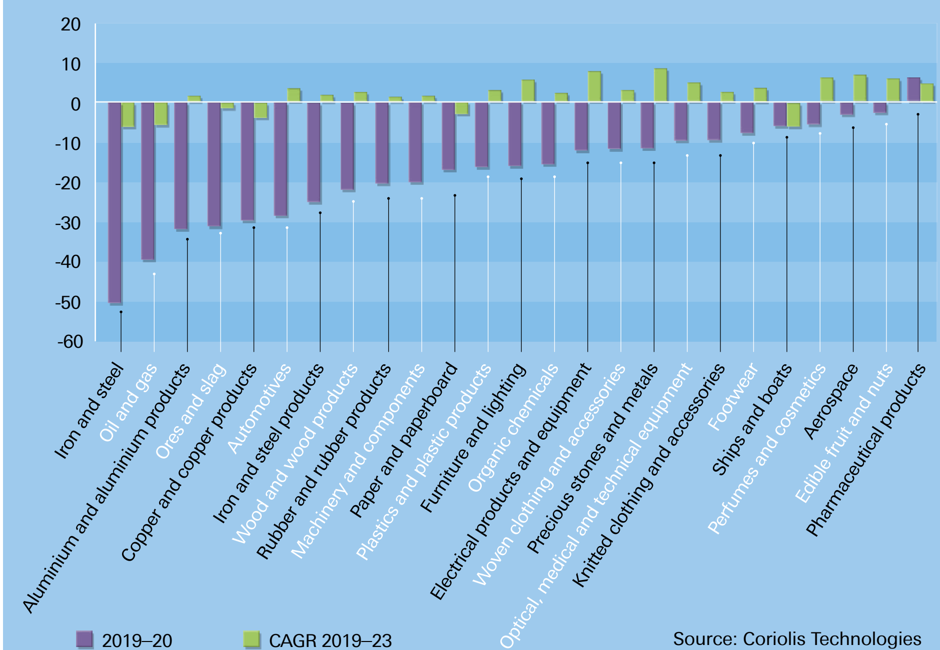
Source: Coriolis Technologies

Figure 2: G20 countries' trade: projected change in exports and imports, 2019–2023, compound annual growth rate (CAGR) (%)



Source: Coriolis Technologies

Figure 3: Top 25 sector trade: projected change in exports and imports, 2019–2020 and 2019–2023, CAGR (%)



Source: Coriolis Technologies

the next four years. A closer look at the data suggests that intra-regional trade growth between 2013 and 2018 was approximately 3.8%; however, between 2016 and 2018, the annualised rate of growth was over 10%, suggesting that the region has been relying on its own internal trade after the Brexit referendum.

The fact that the UK's exports are set to fall annually by around 1.1% up to 2023 suggests that structural changes resulting from both Covid-19 and Brexit will affect it more severely than the EU27 as a whole. France's trade outlook is slightly worse than the UK's, but it has been moving many of its manufacturing supply chains to cheaper locations in Europe (Poland, Hungary and the Czech Republic in particular), so the cause of the enduring decline in trade is quite different to that of the UK.

Exogenous shock

This economic crisis is a policy-induced downturn and is not caused by financial, or even initially economic, instability. It is an exogenous shock – in other words, one that comes from outside of the economic system – the like of which we have never seen before. The sectors that have been particularly affected by the impact of policy decisions to halt production include infrastructure and construction-related sectors such as iron and steel, the car sector and the engineering sector. The drop in oil prices at the start of the pandemic and their failure to recover subsequently can explain the collapse in oil and gas trade values. But iron and steel is impacted more severely in terms of trade growth in 2020 because infrastructure and construction have themselves ground to a halt in Q1 and Q2 of 2020 (see Figure 3).

All of this shows a somewhat depressing picture – 2020 will be a year that is one of the toughest on record and will catalyse some long-term changes to the way the world's trade works.

Banks and businesses are investing in the rapid acceleration of digitalisation, which will change the way we trade as well as the way we finance trade. Businesses are likely to accelerate the automation of routine tasks, changing the way we work and not just where we work. Supply chains will shorten, while the phrase 'reducing dependency' has become part of a political, as well as an economic, discourse since the crisis. Inventories have crashed because of their dependency on one supplier in the automotive sector. The admission in February 2020 from the then Jaguar Land Rover CEO Ralf Speth that “we have flown parts in suitcases from China to the UK” represents a stark illustration of this.[8] Supplier dependencies have also affected the electronics and, most worryingly of all, pharmaceuticals industries.

Renewed nationalism

But perhaps most concerning of all is how Covid-19 has acted as a catalyst to further ignite nationalism, and such nationalism cannot be healthy for the future of trade. More than 95 countries have imposed restrictive tariff regimes on products associated with Covid-19 medical supply chains. The US has bought up supplies of the drug Remdesivir, walked away from the World Health Organization and threatened sanctions against China because it thought it was insufficiently transparent about the origins and spread of the virus. In return, China has imposed trade restrictions on Australia for agreeing that there needed to be an independent, global inquiry into Covid-19’s origins.

Covid-19 has intensified the economic nationalism that has weaponised trade since 2016.[9] China’s military expenditure has increased year-on-year since the GFC. Military expenditure in the EU and the US had been declining, but it has increased in the past two years. All this is evident in the trade statistics, and this year is no exception – the arms trade looks like it will be the fastest-growing sector during 2020, followed by sugar and confectionery (see Figure 4). It is a worrying thought that, as a world, we are online shopping, cleaning, eating and smoking our way through a year unlike any other in living memory, while trade is literally being weaponised.

-13 to -32%

Range of global trade contraction

(World Trade Organization)

The crisis will leave a lasting legacy, with trade set to become more fragmented, nationalistic and digitised. There will be opportunities – greater digitalisation means that there is more scope to support SMEs, and localisation of supply chains is an essential first step towards greater sustainability. Banks and businesses that are committed to multilateralism and free trade need to ram the message home to policymakers that distributed supply chains do not mean that the world’s trade system can operate amid pockets of nationalism. The fact that pharmaceutical trade will grow globally reflects the global inter-dependency of these supply chains as we strive for a vaccine – from the research and development through to the medicines and equipment that will help people recover.

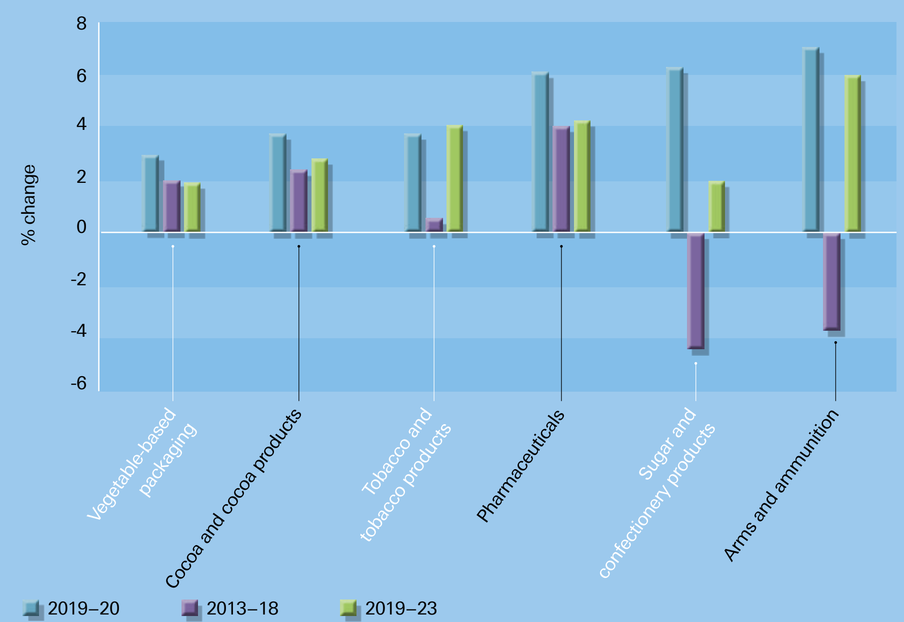
No new normal

As the crisis rolls on, one can be sure there will be no ‘normal’ to return to. The shape of the recovery is still open to interpretation – V-shaped if your glass is half-full or L-shaped if it is half-empty; W-shaped if you favour a double-dip; and U-shaped if you think we can get back to normal. My money is on the flattening V-shape akin to Soros’s “inverted square root sign” – growth may recover somewhat, but the likelihood of it plateauing below where we were at the end of 2019 is high, and this reflects the size of the structural changes the world is going through.

The UK novelist LP Hartley once wrote that “the past is a foreign country; they do things differently there.” Much the same can be said of past economic shocks and subsequent recoveries. These are extraordinary times, and there are no Covid-19 precedents.

Dr Rebecca Harding is an independent trade economist and CEO of Coriolis Technologies

Figure 4: Trade growth sectors, 2019–2020 (% change) and CAGRs (2013–2018, 2019–2023)



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1 See https://bit.ly/3g9eSHh at markets.businessinsider.com and https://bit.ly/34d370n at fnlondon.com

2 See *IMF World Economic Outlook, January 2020,* https://bit.ly/2QkhiZv at imf.org. Subsequent outlooks have been significantly more negative

3 See macmap.org/en/covid19. At the time of writing, Bosnia had not changed its tariff rates during the crisis

4 See https://bit.ly/2E85qqH at wto.org

5 See cpb.nl/en/worldtrademonitor

6 Around 80% of the full data for 2019’s trade was available at the time of writing, so the method uses the Coriolis Technique for estimating to the full percentage given growth during the year as a base for 2019

7 See imf.org/en/Countries/RUS

8 See https://bbc.in/3heXD8X at bbc.co.uk

9 See https://bit.ly/328umX8 at db.com/flow

Building healthcare

Well before the advent of Covid-19, plans were under way for better healthcare infrastructure in Côte d'Ivoire to support GDP growth momentum. *flow* reports on a project to build hospitals and additional facilities in the towns of Aboisso and Adzopé

Six years ago, on 8 September 2014, the African Development Bank (ADB) moved back to its headquarters in Abidjan, the economic capital of Côte d'Ivoire. The homecoming followed an 11-year relocation to Tunis in 2003, shortly after the outbreak of the First Ivorian Civil War.[1]

The pan-African ADB's return marked the beginning of a period of rapid economic growth for Côte d'Ivoire and a boom in infrastructure; current and recent projects have mainly involved investment in water/sanitation, electricity, roads and agriculture. ADB's report on the country notes GDP growth at 7.4% for 2018 and 2019, with cocoa farming accounting for 15% of GDP and 38% of exports – a dependence the country is trying to wean itself off.[2]

"Only the first of those links [in the value chain] occurs here: the hard labour that nurtures cocoa trees and removes the beans from their pods, then shells and dries them and sells them at a fixed price through traders into a global market. The far more lucrative links, those that create processed products and branded chocolate bars for our supermarket shelves, are practically all in Europe, cornered by half a dozen or so vast corporations," noted *The Guardian* on 24 February 2019.[3]

However, the establishment of several processing units in the coffee, cocoa and cashew sectors is testament to more value addition taking place in-country rather than being carried out by importers in the developed world. For example, Swiss chocolate producer Barry Callebaut announced a new processing unit on 29 March 2019. "The expansion fits with the Ivorian government's desire to increase local cocoa processing capacity in its country and is in line with Barry Callebaut's objective to supply the growing market for cocoa in West Africa with domestic supply," commented the company in a press release at the time.[4]

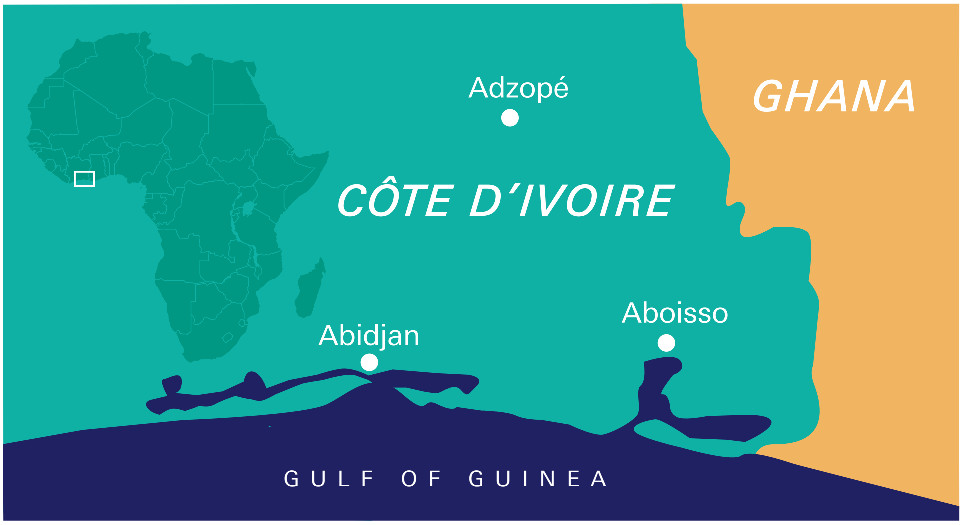
Road to emergence

Implementation of the first-stage National Development Plan (PND 2012–2015) with the support of development partners has helped Côte d'Ivoire relaunch as an emerging market economy with a strong industrial base. However, in his introduction to its sequel, PND 2016–2020,[5] President Alassane Ouattara observed: "Despite the progress made, much remains to be done to consolidate our path to emergence." This task includes, he added, "poverty reduction and better distribution of the fruits of growth, above all for the least privileged and most vulnerable".

National poverty levels are high, at 46%, and not enough of the country's ca. 26 million population has access to health service facilities. More needs to be done to tackle malaria, low average life expectancy (57 according to the World Bank), high infant mortality rates (59 per 1,000 live births according to Unicef) and maternal mortality rates (617 deaths per 100,000 according to World Health Organization data), and to reduce teenage pregnancies. "Teenage pregnancy renders girls more likely to fail at school and have only a limited part in working life, compared to boys of the same age," says the International Monetary Fund (IMF) report (see endnote 5).

According to the World Bank, 56% of Côte d'Ivoire's citizens currently live in urban

Abidjan, Côte d'Ivoire's economic capital



areas and urban growth continues apace at an annual rate of 5%. "The urban population will account for two-thirds of the national population by 2050," it predicts.[6]

Covid-19

The pandemic has erased the prospects for a further year of economic growth in 2020 and, as in other countries, the spread of the virus is being tackled through containment and mitigation measures.

At the time of writing (19 August 2020), confirmed cases (17,150) have been rising rapidly,[7] with 110 deaths recorded.[8] Furthermore, infrastructure deficiencies in the health sector after a long period of underinvestment have made the government's job harder. A 2019 World Bank report on the country noted: "The socio-political instabilities of 2002–2007 and 2010–2011 exacerbated health system challenges in terms of equity, access and quality, leading to poor outcomes including low life expectancy and high infant and maternal mortality."

It continues: "Historically, the Ivorian health system has concentrated services in urban areas with a focus on curative care, with especially the Northern region lagging. During the conflict, funding for the health sector from external funding sources was predominantly for vertical programmes and short-term activities, with little health system strengthening activities, and the Ministry of Health and Public Hygiene continued to suffer from a lack of financial and political empowerment. Furthermore, the supply chain was seriously disrupted, almost all hospitals were closed due to looting or occupation, and 800,000 people were internally displaced with more than 70% of the population lacking access to health services."[9]

As part of PND 2016–2020, supported by the IMF and the World Health Organization, the Ivorian government agreed funding of 833bn CFA francs – about US$1.27bn – over the two-year period from 2018–2020 to improve access to healthcare facilities. The programme covers the construction of various regional hospitals, teaching hospitals and other health facilities across the country, and re-equipment and provision of new equipment.

This article provides insights into a hospital and medical centre programme financed by Deutsche Bank with guarantees from the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).

New regional hospitals and units

Against this backdrop of the most severe health crisis of modern times, the healthcare provision project, with a total financing value of €142m, supports Côte d'Ivoire's efforts to contain the Covid-19 pandemic. Two new hospitals, one located in Adzopé, 105km north of Abidjan, and the other in Aboisso, 120km east of Abidjan, will collectively have a capacity of around 400 beds. They will significantly improve the availability of healthcare services in each region, and will benefit from modern equipment.

> "Deutsche Bank has committed to generate at least €200bn of ESG business volume within the next five years
>
> Alarik d'Ornhjelm, Head of STEF, Middle East and Africa at Deutsche Bank

The hospitals will have surgeries, paediatric services and obstetrics, X-ray rooms, dialysis centres and emergency services. At the time of writing, they were expected to be completed in October 2020. Until then, people have to undergo long journeys into Abidjan to get the care they need. In addition, the project finances new medical units in five hospitals across the country: a radiotherapy centre in Abengourou, an emergency unit each in Daoukro and Séguéla, a traumatology centre in Toumodi, and a surgery and emergency unit in Bouna.

In December 2017, when the government confirmed its US$1.27bn ‘envelope’ to modernise and rehabilitate the health sector, the Moroccan company Agentis expressed an interest to the Ministry of Health and Public Hygiene in bidding for the construction of hospitals on a turnkey basis (construction, design and maintenance of hospitals and new medical units). Four other bidders were also listed. The bid included a technical offer related to various hospitals to be built or equipped with additional new medical units. Agentis specialises in the healthcare sector, and its Ivorian subsidiary has already completed various projects in the country, including the first radiotherapy centre in the University Hospital of Cocody, which was opened in December 2017.

Having won the tender, Agentis then signed an agreement (the ‘*protocole d’accord*’) with the Ministry of Health and Public Hygiene,

In these times, cooperation is more important than ever

Oussama Kaissi, Chief Executive, ICIEC

Adzopé Hospital under construction

46%

Poverty level of Côte d’Ivoire

(The World Bank)

Ministry of Economy and Finance and the Prime Minister’s Office in charge of Budget and Public Debt. The agreement sets the terms and conditions of this preselection and the specifications required before the signature of the commercial contract. The contractor agrees to finance pre-feasibility studies, detailed soil investigation and topographic studies, and environment and impact assessment studies. Once these have been completed, a final project cost is agreed.

Deutsche Bank’s role

Upon this preselection, Deutsche Bank was asked to provide an indicative term sheet to finance the total project cost. The request came in 2018 during the €577m loan restructuring discussions on Côte d’Ivoire’s Société Ivoirienne de Raffinage, West Africa’s largest oil refinery.[10] That refinery deal was announced in January 2019. Myriam Ouazzani, Director, Africa Coverage at Deutsche Bank explains: “This is a very important relationship to us and we have led Côte d’Ivoire bond issuances for years. After we had successfully closed the refinery deal, the Ivorian government asked us if we were interested in hospitals as well. The government had confirmed the locations and the impending tender process and said all the hospitals in the overall ‘envelope’ had to be built between 2018 and 2020.”

As the bank had not previously dealt with the contractor, it conducted background checks and was satisfied. “We told the contractor we would be happy to support them and issued our first term sheet to the government in March 2018,” says Ouazzani. Having demonstrated to the Ivorian government that financing was in place with the term sheet, the next stage was to kick-start the feasibility studies over the next year so that the pricing for the project was tied down and the financing arranged accordingly. “We got our mandate by June 2019,” Ouazzani adds.

Fast forward to January 2020 and it became clear that additional finance partners were needed for the loan. The usual route would be to syndicate the loan out to other banks. However, says Ouazzani, “instead of bringing the transaction to the market externally, we decided to team up with our own Structured Trade and Export Finance (STEF) team.”

This approach brought with it access to export credit agency (ECA) relationships and expertise. As explained in *flow*’s ‘From the rubble’,[11] ECAs came into their own during the 2007–2008 global financial crisis, stepping in with increased trade finance support when commercial bank liquidity was at a standstill. ECA activity has continued to build and the political perspectives that shape the mandates and activities of a national ECA, together with the supply and demand of machinery,

Images: Alamy, Agentis

equipment and materials for infrastructure projects (power in Africa being a huge proportion of 2016 activity), mean that banks financing these deals have highly specialist experts. These individuals are well versed in international relations, project management and logistics, in addition to the normal risk management sense checks in completing such deals.

Alarik d'Ornhjelm, Head of STEF, Middle East and Africa at Deutsche Bank, says: "This is a great example of collaboration between the Investment Bank (Global Emerging Markets) and the Corporate Bank (STEF), where the two divisions have joined forces to support this closing for an important client of the franchise." According to d'Ornhjelm, this transaction is a shining example of Deutsche Bank's commitment to financing healthcare and other socially sustainable infrastructure projects in Africa. "The bank has committed to generate at least €200bn of environmental, social and corporate governance business volume within the next five years," he reveals.

Insurance cover – whether this is from a government ECA or a private provider – makes it possible for a lender to get comfortable with the risk when the required amount exceeds its threshold for a particular geography or loan type. For this transaction, ICIEC provided the insurance. "Given ICIEC is rated Aa3, this helps us to improve the underlying credit appetite," explains Ibrahim Qasim, Head of MENA Structured Solutions at Deutsche Bank. He continues: "Their mandate is to provide sustainable economic development through financial products supporting foreign direct investment and financing essential infrastructure to support their economy. From both perspectives, the risk appetite would have been harder without ICIEC cover."

The senior term loan facility for €141.6m was signed in March 2020 and was fully disbursed by May. Arranged into two tranches, the proceeds are to be used as follows:

- Tranche A: A 10-year €124m facility to finance the construction and rehabilitation works due under the project. This tranche is 95% insured by ICIEC (being an Islamic institution, ICIEC can only provide cover on the principal and not the interest).
- Tranche B: A five-year facility of around €17.6m to finance the ICIEC premium. This tranche is 95% insured by private risk insurance.

At the time the deal was signed, ICIEC CEO Oussama Kaissi said: "The unprecedented health impact of the pandemic is a human tragedy. Of course, this is compounded by the deep economic effects just beginning to be felt as a result of heightened uncertainty, risk, and the rapid deterioration in business confidence and activities. In these times, cooperation is more important than ever and ICIEC is very pleased to be partnering with Deutsche Bank for the first time on such an impactful project in Africa."

The deal underlined the importance of building relationships – the original approach for the project being borne out of a capital markets relationship between Deutsche Bank and the government of Côte d'Ivoire.

Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)

ICIEC was established in 1994 as a multilateral institution and member of the Islamic Development Bank Group. It currently has 47 member countries, which are all members of the Organisation of Islamic Cooperation.

ICIEC's mandate is to support its member countries in facilitating cross-border trade and investment through the provision of credit and political risk insurance instruments.

In 2019, ICIEC enabled US$10.86bn of trade and investment for its member countries through its risk mitigation instruments, which helped in de-risking trade and investment and mobilising capital for highly developmental projects for tenors that are otherwise difficult to support without appropriate credit enhancement.

ICIEC has maintained a Moody's Aa3 rating with stable outlook for 12 consecutive years, one of the strongest ratings in the export credit and political risk insurance industry. It continues to play a leading role in the credit and political risk insurance industry through the Aman Union, which was co-founded by ICIEC to support ECAs in Arab and Islamic countries.

ICIEC operates from its headquarters in Jeddah in Saudi Arabia, as well as from seven regional offices in Africa, Asia and Europe.

Islamic trade finance principles

The key difference between conventional and Islamic financing is that, while the time value of money is not permissible in a pure 'cash now for more cash later' transaction, it is allowed if the financing is an integral part of a real trade in goods.

So, while an organisation is not allowed to lend US$100,000 in cash now in return for US$110,000 payable in a year, it is permitted to sell an asset with a market price of US$100,000 for US$110,000 in a year. For this reason, Islamic finance is often described as an asset-based financing system.

While this particular transaction did not have an Islamic finance structure, the principles of Islamic finance determined the tranche involvement of ICIEC.

Source: *A Guide to Trade Finance*, Deutsche Bank

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Tomorrow's leaders in trade

Few trade finance professionals planned a career in the industry. More often than not, a chance meeting or an opportunity that suddenly presents itself prompts the decision. *flow* takes a closer look at this wide and varied career path, to uncover a remarkable vocation

On-the-job learning is critical to many industries and trade finance is no different: most in the business are only introduced to its intricacies after joining. One seasoned trade finance banker recalls how he spent 10 weeks in trade finance as part of an apprenticeship at what was then Bayerische Vereinsbank (now part of UniCredit), and how it was a defining moment for him.

But how do young professionals get introduced to the sector in the first place? While many trade finance bankers have completed relevant banking examinations, these are typically more grounded in retail financial services regulations than the nuts and bolts of documentary credits, commodity finance and dealing with export credit agencies. As another veteran trade banker recalls, "the financial services exams were all about not robbing little old ladies of their savings and were of little use in commodity finance".

Graduate and internship programmes

Larger banks have established internship and graduate trainee programmes where the successful graduate rotates through various business divisions, with a view to joining the bank at the end of the programme. In 2018, for instance, Deutsche Bank hired more than 900 graduates from around the world to take part in its rotation scheme.[1]

> "In trade finance, you never work by yourself, it's always a case of collaborating with different teams within your own bank and with other banks
>
> Giovanna Dreyer
>
> Senior Product Manager, Trade Finance
> Location: Frankfurt, Germany
> Graduate intake: July 2008

Nicholas Gebbett, UK & Ireland Corporate Bank Chief Operating Officer, who manages the graduate programme for the Corporate Bank in London, explains: "The programme is critical for our talent pipeline. We recruit a diverse group of graduates and provide them with world-class training and placement experiences across our franchise. Over time, we see our graduates grow through the organisation to become the leaders of tomorrow. There's no better example than our Corporate Bank Head, Stefan Hoops, who is himself an alumnus of the Deutsche Bank graduate programme."

However, programmes are currently facing a host of challenges, with the impact of Covid-19 forcing entire companies to work remotely and creating the need for virtual schemes to be implemented. They include Deutsche Bank's own UK Spring into Banking programme for first-year university students, which was redesigned to deliver an immersive and insightful virtual experience.

The 2020 graduate and intern programmes also had to be rapidly adapted to respond to the challenges. "We changed our Summer 2020 Internship so it was fully remote," Gebbett explains. "We have worked closely with the Early Careers team in HR to develop an experience that will

I had the opportunity to attend working group sessions, connect with banking leaders and discuss the latest topics affecting the industry

Tan Lu

Business Product Manager, Trade Finance
Location: Frankfurt, Germany
Graduate intake: July 2013

still give interns high-quality learning and networking opportunities, but one that also leverages collaboration tools to give them greater exposure to our international franchise than ever before."

Another graduate is Aravind Mohandoss, who, at 24, is part of the bank's APAC Trade Finance Structuring team. "We manage and drive complex trade deals with a focus on planning, risk mitigation and execution," he explains. Having finished the second year of his MBA in finance at the Indian Institute of Management in Kozhikode, Kerala state, he was selected to join the Deutsche Bank graduate scheme in January 2019. "A big highlight for me was being sent to London for five weeks for training across all the business divisions, products and regulation – as well as the banking industry as a whole," says Mohandoss, who is continuing to build out his skillset and is now studying for a Chartered Financial Analyst qualification from CFA Institute in India.

"The Deutsche Bank graduate scheme pushes you to become an entrepreneur and there's a real emphasis on owning your career development," adds Marcus Storm, a London-based Data Product Manager covering all artificial intelligence (AI) related products in Securities Services. "The rotations you undertake are almost like four mini internships, so you learn a lot in a short space of time – it's an invaluable experience."

Following this concentrated training period, Storm stayed on in debt structuring – notably financing infrastructure projects across sub-Saharan Africa and Central Asia – before making the switch to AI and data product management in late 2017. "Moving teams was greatly helped by the fact that I already knew the team from the graduate scheme and they knew my skillset," he says. "Ultimately, the process was really informal. While, in theory, the two jobs have little in common, the underlying soft skills – which were all developed throughout my time on the graduate scheme – are critically similar."

Young professionals

Graduate and intern programmes play a vital part in attracting talented individuals at the earliest stages of their careers. Today's young people have access to many more career choices than their parents, helped by the vast amount of information now available online.

However, with competition for talent intensifying, banks also face many more threats to retaining the employees they have invested in. "Many people join our industry with the aim of moving elsewhere after a couple of years, such as to start-ups," noted Stefan Hoops at the 2020 Bankers Association for Finance and Trade (BAFT) Global Annual Meeting in Frankfurt.[2] Furthermore, tech giants are all fishing from the same pond when it comes to acquiring talent as they build out their own financial services platforms. To mitigate this shift, various initiatives have been developed to

The internship opened my eyes to the world of trade finance, its impact on the global economy and the contribution I am able to make

Hoor Yar

Trade Finance – Financial Institutions
Location: Dubai, UAE
Graduate intake: July 2015

proactively nurture and support the trade finance industry's young professionals.

Mentorship schemes

This push notably includes mentorship schemes, such as the International Trade and Forfaiting Association (ITFA) Emerging Leaders programme, which is led by Duarte Pedreira, an ITFA board member and Head of Emerging Markets FIG & Trade Finance at Crown Agents Bank. As he explained to Trade Finance TV in late 2019: "The way we built the mentoring scheme with ITFA was very much in line with the idea of broadening horizons. It's all about empowerment, knowledge sharing and creating the conditions so that people eventually know what trade finance is and can powerfully choose a career."

Meanwhile, the International Chamber of Commerce (ICC) Young Successors in Trade programme was established in 2018 to identify and nurture the future generation of experts in the trade finance industry. One of its first candidates was Tan Lu, Business Product Manager, Trade Finance at Deutsche Bank, whose work during the scheme culminated in a series of recommendations on how the ICC Banking Commission could further strategically evolve in the digitalised market of trade.

"I had the opportunity to attend working group sessions, connect with banking leaders and discuss the latest topics affecting the industry with them," says Tan. "I am very proud of having been able to contribute to ICC's work, such as providing input and drafting papers of ICC recommendations to G20 2018 and G20 2019."

Giovanna Dreyer, a Senior Product Manager at Deutsche Bank based in Frankfurt, is a member of the 2020 cohort. "You need to be dedicated to the programme," she emphasises. "It's something you want to be involved in and you need to put the effort in to extract the greatest benefits. In trade finance, you never work by yourself, it's always a case of collaborating with different teams within your own bank and with other banks. With the Young Successors in Trade programme, it's really insightful to see how processes may be different globally, and it's great to have the opportunity to share your knowledge and expertise to help solve industry challenges."

> The Deutsche Bank graduate scheme pushes you to become an entrepreneur and there's a real emphasis on owning your career development – it's an invaluable experience

Marcus Storm

Data and AI Product Manager, Securities Services
Location: London, UK
Graduate intake: July 2017

Another such scheme is BAFT's Future Leaders Program, which was established to develop and engage future leaders in solving common industry challenges.[3] Hoor Yar, part of the Deutsche Bank Trade Finance – Financial Institutions sales team in Dubai, joined the 40-strong 2020 intake. "There are seven to 10 in each project group, and my group is writing a white paper on the opportunities and challenges of sustainable financing within trade finance," she explains. "The paper is exploring how we can incentivise banks and create an ecosystem that ensures green financing in transaction banking is both sustainable and profitable."

Like the other young professionals *flow* spoke to, Yar's attraction to trade finance grew steadily through work experience. Having studied accounting and finance at the University of Manchester as a foreign student, she followed this up with a Masters in Banking and International Finance from Cass Business School.

"In my five years of study, I never came across trade finance – and this is not unusual," she admits. It was only once she was back home in Bahrain on a BNP Paribas internship that she made the discovery. "The internship opened my eyes to the world of trade finance, its impact on the global economy and the contribution I am able to make to the global movement of goods," she reflects. This encouraged her to apply for Deutsche Bank's graduate programme in Dubai.

Professional courses and reference tools

Meanwhile, for those without access to graduate learning programmes, or who come into the industry some years after completing tertiary education, professional education programmes can help bridge the gap.

The London Institute of Banking & Finance (LIBF) offers several qualifications – such as the renowned Certificate in International Trade and Finance (CITF) – that are designed in partnership with ICC and in consultation with leading experts from around the world.[4] No longer are you required to be a specialist in trade finance documentation to get a qualification; this is something for all participants in trade, be they importers, exporters, insurers or financiers – or even trade finance journalists.

"We run internationally recognised courses in more than 90 countries, and there are currently around 4,000 CITF holders worldwide," explains Alex Gray, Head of Trade and Transaction Banking at the LIBF.

Other well-respected courses exist, including the European Bank for Reconstruction and Development's (EBRD's) Trade Finance e-learning Programme, which aims to help issuing banks participating in the EBRD's Trade Facilitation Programme achieve best international practice in trade finance.

Furthermore, the ICC Academy e-learning platform offers online certifications and professional development services to meet the educational needs of banks, corporates and other organisations at the forefront of international trade. Courses include the Global Trade Certificate – an introductory-level programme – and the Certified Trade Finance Professional initiative for more advanced professionals.[5]

Last but not least, to support trade finance learning alongside the existing specialist trade finance media providers, Deutsche Bank made its 100-page *A Guide to Trade Finance* available on the *flow* website in May 2020.[6]

"A big highlight for me was being sent to London for five weeks for training across all the business divisions, products and regulation – as well as the banking industry as a whole

Aravind Mohandoss

Trade Finance Structuring, APAC
Location: Mumbai, India
Graduate intake: April 2019

4,000

holders of the CITF

(The London Institute of Banking & Finance)

Hang on to your talent

As the trade finance market continues to evolve – with the growth of supply chain finance, the use of new technologies and an increase in non-bank finance providers – so will the range of graduate programmes and training courses. Even if many components of the industry become automated, the underlying fundamentals of being on top of a trade transaction 'from farm to fork' – and how it is financed – will always need a firm grasp.

Good employers must ensure they foster their rising stars by providing them with the opportunities to learn and grow through personal and professional development. Supporting employees from the start of their careers can yield significant benefits for any company – many of Deutsche Bank's senior leaders started out as graduate trainees. What's more, a compelling working environment, engaging company values and a competitive compensation package are critical considerations. Employees want the best tools for the job and a rising tide lifts all boats – after all, great people want to work with other great people.

Remote working, meanwhile, has become a daily reality for millions as a result of Covid-19, and the office is no longer seen as a necessity. Consequently, any added value that a company can give its employees will likely make the difference going forward. A company that listens to its workforce and adapts will prosper. Those that fail to do so may see their talent look elsewhere. It will be interesting to see what sort of leaders in trade we have at the start of the next decade, but the momentum is clearly going in an encouraging direction.

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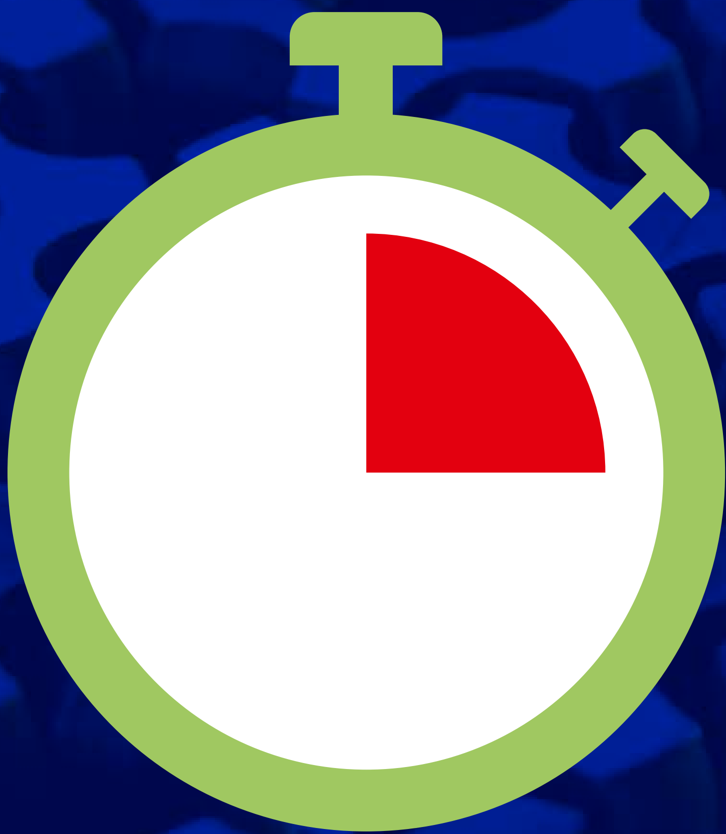
Is just in time...



...out of time?

As corporates revisit their supply chain exposures as a result of Covid-19, could just in time supply chains be replaced by planning 'just in case'? Treasury specialist Helen Sanders reports on business continuity management strategies

The slowdown of manufacturing in China due to the Covid-19 outbreak is disrupting world trade and could result in a US$50bn decrease in exports across global value chains, according to estimates published by the United Nations Conference on Trade and Development (UNCTAD) on 4 March.[1] Europe has been particularly affected (see Figure 1 on page 49), causing many companies to question not just the apparent lack of diversification and resilience in their supply chains, but also the speed with which the pandemic affected or even paralysed supply chains, particularly in the precision instruments, machinery, automotive and communication equipment sectors.

This article takes a closer look at how businesses have been tackling supply-chain-related business continuity issues during the immediate crisis period and attempts to understand what the experiences of the pandemic could mean for supply chain planning in future.

Has just in time (JIT) manufacturing failed?

Companies in many industries, particularly automotive, manufacturing and technology, have embraced JIT supply chains to reduce working capital tied up in inventory, and to flex production in line with changing customer demand.

On 10 March 2020, the day the first European lockdown was imposed in Italy, nearly 75% of respondents to an Institute for Supply Management survey reported disruption to their supply chains.[2] Lead times more than doubled from December on average, with 62% experiencing order delays and over half struggling to communicate with supply chain partners in China. A month later, a second survey reported that more than 95% of respondents expected supply chain disruption.[3]

As every region in the world gradually locked down, the effects of disruption to both production and customer demand were exacerbated. Increasingly, the nature of global supply chains came into question. In particular, questions were raised as to whether the JIT model allowed enough contingency 'just in case'. After all, inventory levels were run down, revenues were severely impacted and liquidity was constrained. Some predicted that companies would use the experience of the crisis to localise their supply chains, increase inventory levels, or look to insourcing or vertical integration to control key elements of production more closely.

"Over the next six to 12 months, once companies have addressed their short-term liquidity needs and shored up their supply chains, we expect to see more strategic decision-making around inventory levels, cash buffers and sourcing diversification," reflects Joao Galvao, Deutsche Bank's Global Head of Supply Chain Finance.

> Supply chain financing programmes (or reverse factoring) exploded during the early stages of the crisis
>
> Anil Walia, Head of Supply Chain Finance EMEA, Deutsche Bank

However, such adjustments are not driven by the pandemic alone. Supply chain changes are as likely to be driven by other factors, such as US–China trade tensions, the need for 'real time' fulfilment, and environmental, social and governance (ESG) considerations.

Contingency and flexibility

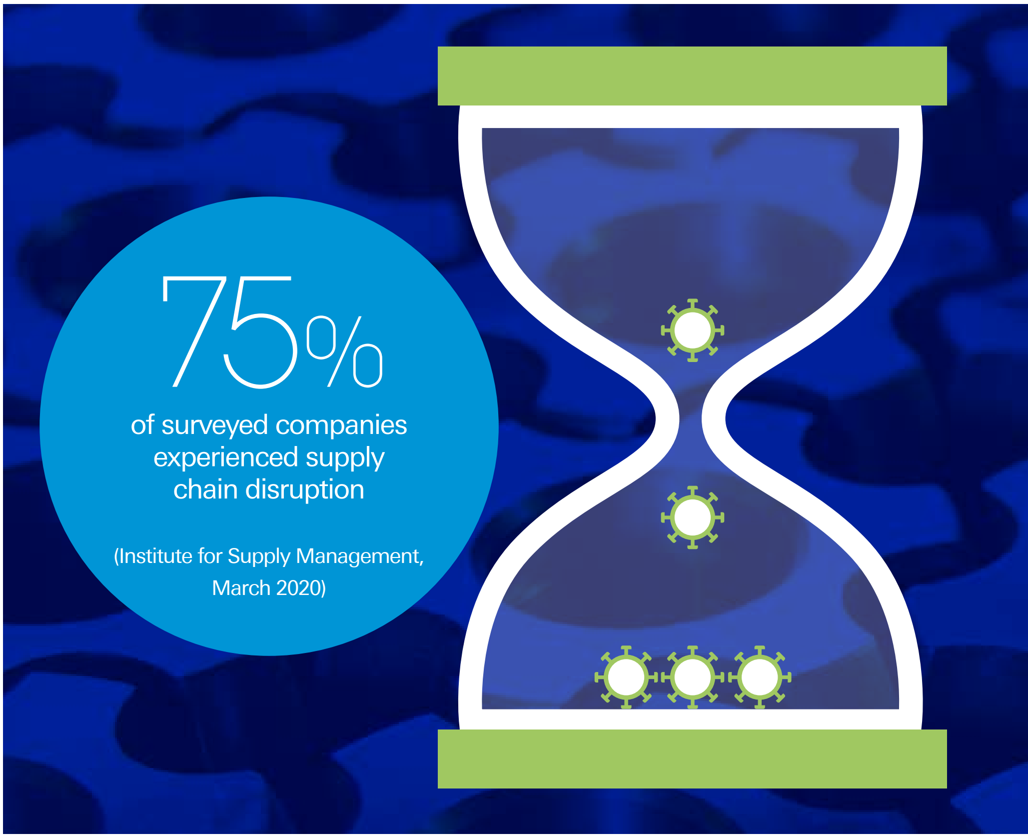
In some respects, the JIT model may have helped companies to weather the early stages of the crisis. Effective JIT supply chains have risk-based contingency built in, reflecting the realities of international trade. Cross-border supply chains in particular can be hampered by unpredictable or delayed payment, leaving stock on container ships sitting outside ports. Supply or demand shocks are frequent occurrences, although in most cases these are caused by factors such as unseasonal weather, strikes or transport failures. While supply chains are often global and highly complex in nature, they are typically carefully calibrated to balance risk and cost. Given additional supply chain risks, buying the furthest away simply for cost reasons is likely to be counterproductive in the longer term.

In fact, rather than just demonstrating the limitations of JIT supply chains for certainty of supplies, the crisis has also highlighted their flexibility. Within days of governments announcing shortages of personal protective equipment, for example, fashion and luxury goods companies were producing masks, gloves and hospital scrubs. Engineering firms shifted from vacuum cleaners to ventilators. Without inherent supply chain flexibility, this could not have been achieved so quickly.

While it seems unlikely that the crisis will spell the end of JIT manufacturing, it could – and should – mark the end of poor implementation. Building supply chains based solely on lowest cost principles, for example, may create short-term competitive advantage, but squeezing suppliers on cost, and building transactional relationships rather than longer-term ones, creates significant supply chain vulnerability. It also brings environmental and social costs and risks, which have major reputational implications.

Building resilience and sustainability

Conversely, when well implemented, JIT production is not at odds with 'just in case' risk planning. However, one problem the crisis has exposed is the extent to which JIT shifts risk further down supply chains to companies that are far less equipped to deal with liquidity constraints. In March, International Chamber of Commerce (ICC) quoted an International Labour Organization estimate that 24.7 million jobs in small and medium-sized enterprises were at risk,[4] a number that has rapidly escalated as the extent of the crisis has become clearer. The ICC article adds that, by that time, more than US$2.7bn of orders in the Bangladeshi garment sector had been cancelled, closing thousands of factories and risking four million jobs.



'Good' supply chains – whether based on a JIT model or not – must focus not only on speed, cost and working capital efficiency, but also on resilience and sustainability. Many companies are already reviewing the way they identify and manage supply chain risks. While every company routinely conducts risk planning, the current situation has emphasised that these stress tests often need to be far more rigorous and extreme than would be anticipated under normal business conditions.

Extreme risk planning

'Think the unthinkable' is often the premise of extreme risk planning, but the limits of risk managers' imagination have perhaps been exposed. Business continuity planning, for example, often anticipated that one or more locations might be out of action, but rarely did it envisage that every location might shut down. Likewise, rather than simply building in the impact of 'shocks' in customer demand, the pandemic has illustrated that behaviour can shift to a 'new normal' very quickly. It has also shown that governments and regulators can and will act rapidly and decisively, whether through interest rates, fiscal actions, or new restrictions or permissions, creating new supply chain pressures or opportunities.

> The pandemic has illustrated that behaviour can shift to a 'new normal' very quickly

An ecosystem-wide view

Building resilience and risk planning is not an activity that can be done in isolation. Larger businesses cannot simply push risk and working capital pressure to other companies in their supply chains, as these companies will not survive, potentially crippling the entire ecosystem. Rather, as many businesses are now finding, the key to supply chain resilience is to leverage the strength of the ecosystem as a whole. This could mean financing additional capacity requirements to cater for increased or reduced demand shocks, lending to distributors to help cover short-term working capital needs during a period of reduced demand, or setting up virtual showrooms in response to new buying behaviours.

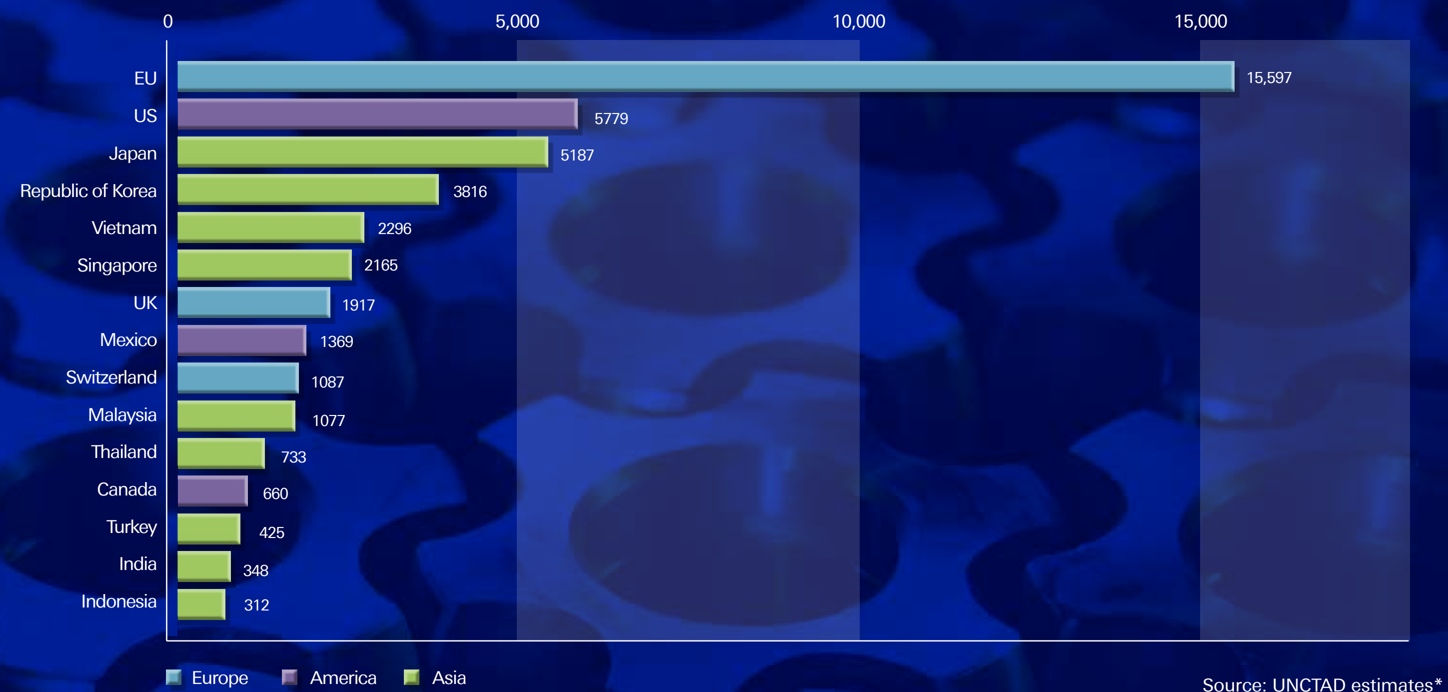
Treasury responses

During the early stages of the crisis, treasurers' first priority was to protect their own liquidity position – a particular challenge at a time when market liquidity was constrained and commercial paper markets had dried up. Many tapped into or extended existing bank credit facilities, and some sourced liquidity through capital and equity markets to boost cash buffers. Treasurers expanded the scope of existing cash pooling structures to mobilise cash across the business and internal financing.

Having secured their own liquidity position, the next step was to build resilience across the wider supply chain. Larger companies found themselves turning to payables finance programmes to help support this.

"Supply chain financing programmes (or reverse factoring) exploded during the early stages of the crisis as companies sought to shore up supply chains, leveraging their

Figure 1: Trade impact of the Covid-19 epidemic (US$m), top 15 most affected economies



Source: UNCTAD estimates*
*Estimates are based on a drop of Chinese supply in February 2020, as measured by the Chinese PMI. The list does not include Taiwan Province of China and Hong Kong, SAR of China

own financing capacity and credit rating to provide cost-effective working capital to supply chain partners," comments Anil Walia, Head of Supply Chain Finance EMEA at Deutsche Bank.

While these were already well established before the pandemic struck, many companies have expanded the geographic reach and number of suppliers onboarded to these programmes, targeting not only tier one suppliers, but tiers two and three as well.

"Supply chain finance programmes can be set up quite quickly, within two to three months, so long as all parties are motivated to do so," says Deutsche Bank's Head of Cash Management Structuring, Benjamin Madjar. He continues: "Given that every crisis ultimately impacts on liquidity, this is a valuable way of building resilience into supply chains by unlocking working capital cost-effectively without creating disadvantage for the anchor company."

The value of resilient, sustainable supply chains and boosting resilience is not only 'just in case' extreme events take place. According to Bain research, investments in supply chain resilience can deliver a 15–25% improvement in output capacity and a 20–30% rise in customer satisfaction.[5] These factors are both crucial to competitive advantage, and reinforce the view that cost orientation alone cannot be the driver of future supply chains.

Meeting changing customer demand

It is not only the supply side that has been affected by the crisis, but customer demand too, and this has also had significant implications for treasurers and finance managers. Some have inevitably seen a drop in income, with major revenue and working capital implications for many companies. Those that have seen a spike in demand have had to support their supply chain partners to invest in additional capacity.

Others have had to rapidly adapt to changing buying patterns. According to Adobe's *Digital Economy Index* report, published in May 2020, e-commerce in the US experienced four to six years' growth in one quarter, equivalent to 77% year-on-year.[6] Consequently, treasurers need to support digital payments and new business models. Captive finance companies may also respond to reduced consumer confidence and purchasing power with consumer incentives such as financing offerings. JIT and 'just in case' supply chains – whether physical or financial – need not be mutually exclusive, so long as risk planning takes into account supply chains as a whole, from the smallest suppliers and distributors through to end customers. Cost and efficiency objectives will always be part of supply chain decision-making. But resilience, flexibility and sustainability (which includes ESG issues) are likely to be the factors that contribute to success over the longer term, in the new 'business as usual' and during future crises.

Helen Sanders is an independent treasury and transaction banking specialist, formerly editor of Treasury Management International *and Director of Education at the Association of Corporate Treasurers*

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World airlines and Covid-19: "THE WORST YEAR IN THE HISTORY OF AVIATION"

That's the International Air Transport Association's prediction for 2020, which it expects to exceed the previous 'worst year' in 2001

Estimated total loss for the world airline industry in 2020	US$84.3bn
Estimated 2020 revenue for the industry, down 50% on 2019	US$419bn
Amount earmarked in March 2020 as federal aid for US airlines under the US$2.2trn CARES Act	US$35bn
Number of flights cancelled from January to July 2020	7.5 million
IATA's expected drop in the number of global passengers for 2020	-55%
Fall in industry-wide revenue passenger kilometres (RPKs) in July 2020 from a year ago, versus a 94.1% fall in April	-79.8%
Year-on-year decline in RPKs for China in July 2020, versus -72.6% for the US and -90% for Australia	-28.4%
Passenger load factor (capacity utilisation) for the industry in July 2020, versus 85.6% in July 2019	57.9%
Job losses in the industry in the six months from March 2020, the majority within airlines. Consultancy Five Aero expects the figure to rise to 500,000 by the year-end	350,000+
Estimated global airline carbon emissions in 2020; a 37% fall from 2019 (914 million tonnes)	574 million tonnes CO_2

Sources: International Air Transport Association, Five Aero, ec.europa.eu

Image: Getty

Grounded planes have been a familiar sight at airports worldwide amid the Covid-19 pandemic

March to change

Most large conglomerates grow through acquisition-led strategies, but not Reliance Industries Limited. Clarissa Dann meets Group Treasurer Soumyo Dutta at the company's Mumbai headquarters to discover more about its rapid organic growth, its journey to debt-free status, and how its treasury has aligned

The drive from Deutsche Bank's Mumbai office in Bandra Kurla Complex, over the Bandra-Worli Sea Link bridge to the Reliance Industries Limited (RIL) headquarters, gives one ample opportunity to observe the city's entrepreneurial culture and prolific infrastructure projects.

As my colleague and I made our way in mid-February towards what is India's largest company in revenue terms, the Covid-19 pandemic – the only indications of which, on my arrival at the Chhatrapati Shivaji Maharaj International Airport, were selected temperature checks at immigration and officers in masks – had not yet fully hit. Little did we know that the world was about to undergo a seismic change.

As it happened, all of RIL's businesses were deemed 'essential services' and the company was personally thanked by

Indian Prime Minister Narendra Modi for its support since the pandemic began. "The entire Reliance team has been making effective contributions in the fight against Covid-19. Be it in healthcare or assisting people, they have been active. I thank [Reliance chairpersons] Mukesh and Nita Ambani for contributing to PM CARES [the Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund] and for their other work towards defeating [the] coronavirus," he tweeted on 31 March.

500 m

RIL's annual footfall in 10,415 retail stores

(Reliance Industries Limited)

Vision and determination

RIL is no stranger to managing change and our host, Group Treasurer Soumyo Dutta, has been busy doing just that since his arrival in 2012 as the company was going through a period of rapid organic growth.

An important part of the RIL growth journey is not only the diversification from oil and energy to its digital services and consumer businesses, but the debt and deleveraging strategy of its Chair and Managing Director, Mukesh Ambani. The most recent manifestation of this took place several months after our meeting with Dutta.

At the annual general meeting (AGM) on 12 August 2019, Ambani declared: "We have a very clear roadmap to becoming a zero net-debt company within the next 18 months, that is by 31 March 2021. We have received strong interest from strategic and financial investors in our consumer businesses, Jio and Reliance Retail. We will induct leading global partners in these businesses in the next few quarters and move towards the listing of both these companies within the next five years. With these initiatives, I have no doubt that your company will have one of the strongest balance sheets in the world."

The company then went on to announce a capital raise worth US$20bn and the completion of a US$7bn rights issue "completed entirely on a digital platform during lockdown".[1] Ambani proclaimed RIL's net debt-free status (nine months ahead of the March 2021 deadline) in a statement shared in a Bombay Stock Exchange (BSE) filing on 20 June 2020. "I have fulfilled my promise to the shareholders by making Reliance net debt-free much before our original schedule," he said. "I wish to assure [shareholders] that Reliance in its Golden Decade will

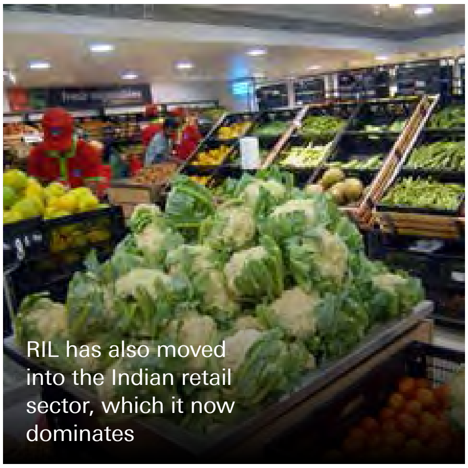
RIL successfully diversified into the telecomms sector when it invested in Indian mobile company Jio

set even more ambitious growth goals, and achieve them."[2]

Two days later, on 22 June, RIL stock surged 2.53% to a record high of US$23.75 on the BSE. The sale of minority interests in its digital services arm Jio Platforms to marquee investors (including Facebook Inc; private equity players KKR, Vista Equity Partners, Silver Lake, General Atlantic, TPG and L Catterton; and sovereign wealth funds Mubadala, ADIA and PIF) had been completed in under eight weeks.[3] Almost overnight, RIL was transformed into the world's second largest energy firm after Saudi Aramco and had positioned itself as a disruptive industry leader in the digital connectivity space through Jio Platforms. Other marquee investors followed; by 15 July 2020, Google had become the 14th large investor after purchasing a 7.7% stake.

Areas of operations

The company's slogan, "Growth is Life", aptly captures its ever-evolving spirit. Today, Reliance owns businesses across India


RIL has also moved into the Indian retail sector, which it now dominates

engaged in energy, petrochemicals, textiles, natural resources, retail and the digital consumer space (see Figure 1, opposite). Not only has Reliance Industries achieved its goal of becoming an energy giant, but its expansion into retail and the digital consumer space on the back of successful oil refining operations has aligned the company with India's developing consumer demand.

Diversification from hydrocarbons

"When I joined in 2012, the full-year EBITDA for our petrochemical business was US$1bn," recalls Dutta. "But we have undertaken massive capex [capital expenditure] since then, with capacity starting to come on-stream in the past couple of years, and now we have US$1bn per quarter coming from petrochemicals."

While hydrocarbons remain a core revenue component, the consumer business has caught up fast. Dutta explains that when he started, this segment accounted for just 5% of total EBITDA; today it represents about 41%.

It was RIL Chair Ambani who invested some US$33bn in Jio;[4] the company is a relatively recent entrant to India's mobile market and has attracted almost 390 million mobile data subscribers.[5] As a result, India is now the world's largest consumer of 4G mobile data and Ambani sees the company as having democratised digitalisation there. And, with over 500 million annual footfalls across more than 10,000 retail stores, Reliance dominates India's retail industry, operating the country's most extensive store network.[6]

But the plan is to grow even bigger. "Over the next few years, our ambition is to further accelerate the growth of our consumer business so that it accounts for half of our earnings," says Dutta. The debt-free capital infusion in Jio Platforms, absorbing more capital than India's entire tech start-up ecosystem in 2019, has put it in a strong position to achieve this goal.

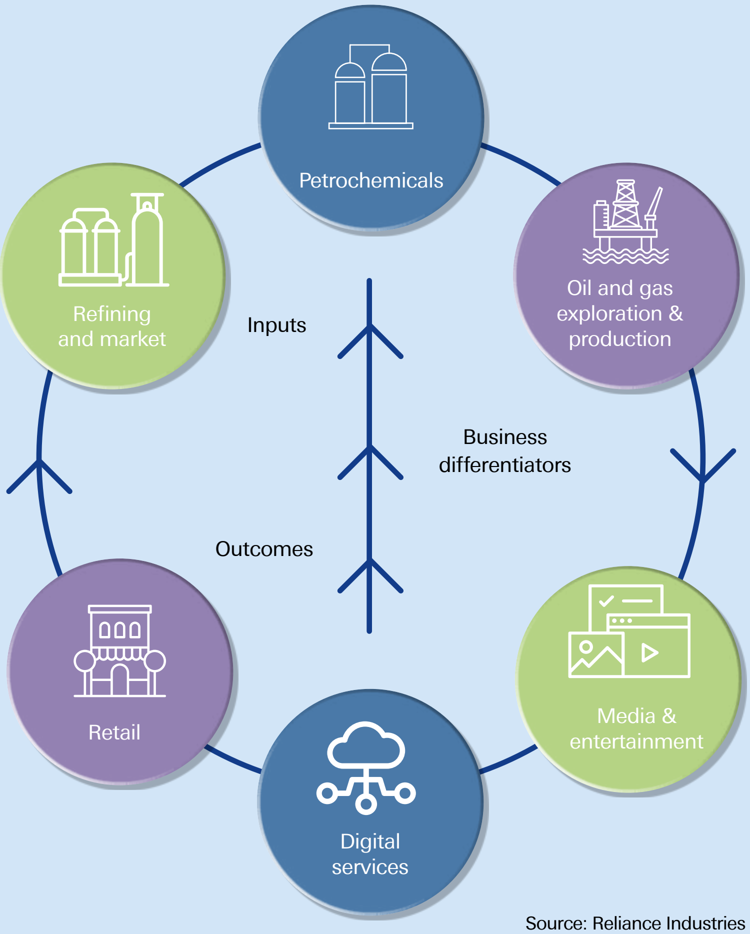
The other key is strategic partnerships. At the July 2020 AGM, Ambani shared a message from Facebook CEO Mark Zuckerberg that highlights how RIL is empowering the SME and consumer sector. "India has more than 60 million small businesses and millions of people rely on them for their jobs and livelihoods," said Zuckerberg. "A lot of entrepreneurs now need tools they can rely on to help them find and communicate with their customers and to grow their businesses. Now, with a lot of communities around the world in lockdown, it's more important than ever that people have the tools to connect with each other, and their businesses can find ways to operate online. This is something

> The entire ecosystem is changing, with the government pushing hard for digital payments
>
> Soumyo Dutta, Group Treasurer, Reliance Industries Limited

Images: Reliance Industries Limited, iStock

Figure 1: Reliance areas of operations and business model

Through sustainable measures, Reliance creates value for the nation, enhances quality of life across the entire socio-economic spectrum and helps spearhead India as a global leader in all the domains where it operates



Source: Reliance Industries Limited

that we think we can help with, which is why we are proud to be partnering with Jio to help people and businesses in India create a lot of new opportunities."

Transition from bank to treasury

What made Dutta choose a career in corporate banking and treasury? After studying at the Indian Institute of Management Calcutta, in 1998 he joined Citibank's Treasury team in India as a campus hire. Fifteen years later he was promoted to Head of Trading & Head of Risk Treasury for Citigroup South Asia, where he managed balance sheet liquidity, the asset-liability book and the bond trading business.

"I grew up in the markets business," he recalls. "When I joined Citi in India, the bank had only four branches and a balance sheet of US$3bn–4bn. When I left, we had 40 branches, a balance sheet of around US$25bn and a major franchise for foreign exchange (FX) and fixed income." Dutta credits his Citi experience for teaching him much about the financial markets and treasury business, as well as the skills of engaging with clients.

When a career opportunity in Reliance Treasury emerged, he simply couldn't turn it down, as it offered "a wider canvas" for his talents and an opportunity for him to broaden out beyond financial markets alone. "The largest attraction was Reliance's explosive growth in the consumer business and its ambitious plans for continuing this," he adds. "I wanted to be a part of that story."

Home-grown treasury

"There are many benefits to the organic growth of our business, and one of them is that it has given us the space to grow our own treasury," says Dutta. He explains that, structurally, Reliance Industries has treasuries embedded within each of its business divisions; there is a treasury for the refining business, one for the petrochemical business, one for the consumer business and so on. The role of the central treasury, he suggests, is to "lay down the broad boundaries, frameworks and priorities, and define how each individual treasury should interact with our banking partners".

While each division will have its own needs from the company's banking partners, it is the central treasury that agrees the prioritisation for the group.

Given that RIL is an innovation-led company, it is no surprise that Dutta speaks of technology as helping to drive efficiencies within treasury. The company uses SAP as its enterprise resource planning system and Murex for treasury and financial markets, working with the providers to ensure there are linkages and interoperability between the two.[7] Reliance has also participated in several pilot projects with trade digitalisation specialist Bolero (on electronic bills of lading) and has joined numerous blockchain projects. Yet, given the company's size, the scalability of any solution is the crucial determining factor.

Payments and the move to digital

On the face of it, cash management across a diverse set of businesses would appear to be a challenge for Reliance. Not only is the company a global operator, with all the challenges that brings, but it spans the full scale of payments, from high-value items in the hydrocarbons business to small, frequent payments in the consumer business.

Yet that isn't so, stresses Dutta, who explains that the company has different

legal vehicles and works closely with banks that specialise in each domain, so is able to offer the right solutions for each of its businesses depending on their unique requirements. "It has been a continuous learning process," he admits. "Sometimes banks and service providers have offered us products and promises, only to realise that they had not anticipated the extent and pace of scaling up of transactions. Yet, for the most part, our banking service providers have understood our requirements and business aspirations and have been quick to make appropriate investments to provide us with the right tailored solutions."

In the consumer space, digital payments constitute a significant theme for Reliance. India's payments system is among the most dynamic in the world, and in 2016 the government launched the Unified Payments Interface (UPI) initiative to turbo-charge the country's digital trajectory.[8] UPI allows account holders to instantly send and receive money using their smartphones with a single identifier – without entering any bank account information – at any time of day. The scheme has been heralded as a driving force behind the ubiquity of real-time payments in Asia. (For more, see the *flow* article 'Building Asia's road to real-time treasury'.)[9]

"The entire ecosystem is changing, with the government pushing hard for digital payments," says Dutta. "We still find a lot of store collections happening via cash and coins, which brings its own set of cash management challenges, but we are seeing this changing fast and digital payments are the new order of the day." Indeed, Reliance's digital services business now receives most of its payments through digital apps or UPI. More than 10 million Jio recharges happen through UPI in a month.

Largest user of ECA financing

On the energy side of the business, Reliance's organic growth through investment in downstream capacity has provided it with an opportunity to explore a diverse range of trade finance instruments for both the capital and trade account. And its treasury team members have been very active users across the breadth of the company to meet their financing requirements, deploying a range of tools including buyer's credit, seller's credit, forfaiting and variants

> We have fulfilled our promise to the shareholders by making Reliance net debt-free

Mukesh Ambani, Chairman, Reliance Industries Limited within supply chain finance. "We have been able to use innovative instruments while raising resources, with different tenors, geographies covered and pools of investors," says Dutta.

Yet, when it comes to long-term funding, export credit agency-backed (ECA) financing has been the go-to source. Dutta describes Reliance as "the largest user of ECA financing in the globe", using financing ECAs from Japan, South Korea, Italy, Germany, the UK, Canada and the US, to name but a few. "We have been able to access very competitive rates that take care of our asset-liability mismatches," he adds.

The long tenors offered by ECA financing are particularly helpful for larger projects with significant gestation periods. Telecommunications is a case in point. In September 2019, Reliance Industries, via Jio Platforms, signed a US$1bn 10-year loan, backed by the Korean trade insurer K-Sure, to finance the procurement of goods and services to expand India's 4G wireless network. The standout deal was the largest-ever Indian loan covered by K-Sure, and its largest-ever telecom financing.[10] It picked up *GTR*'s Deal of the Year and TXF's Perfect 10 award in 2019 – not the first time Reliance has been celebrated for an ECA-backed deal by industry peers.

Managing market risk

The diversity of the conglomerate's business certainly brings new and diverse challenges. "When 95% of our earnings were derived from hydrocarbons, managing cash flow and FX risk were, to a certain extent, straightforward," says Dutta. "We would import crude and sell to global markets – and, as a completely dollarised business, we could manage the FX risk. The growth in our consumer business has changed this dynamic. For the consumer businesses, we now import capital equipment from across the globe – dealing in many currencies – but the revenue for those businesses largely accrues from the local market, and that income is denominated in Indian rupees."

He explains that this policy has required much more sophisticated hedging structures to help manage the risk. Of course, as Covid-19 has demonstrated, planning cannot account for every potential scenario. Dutta points to the 'taper tantrum' of 2013, when US Federal Reserve Chairman Ben Bernanke dealt a major shock to investor expectations, announcing that the Fed would, at some future date, reduce the volume of its bond purchases, thus tapering its policy of quantitative easing.[11] It was a key geopolitical shock that hit the company's balance sheet in terms of interest rates and FX risk. "Interest rates hit the roof," says Dutta, "and we saw a large outflow from global capital markets back to the US."

It's ironic that the pandemic now seems to have sent the Fed in the opposite direction. "There is no such thing as a free market any more. All developed central banks have cut rates to zero and are buying trillions of assets. Inflation is very low," declared George Saravelos, Head of FX Research at Deutsche Bank in April 2020.[12]

Blue-sky treasury thinking

Dutta circles back to the topic of change. "We are always looking to new ideas and when it comes to our treasury set-up, the 'blue-sky thinking' centres on whether our treasury can be designed as a platform organisation."

RIL Treasury aspires, he explains, to reorganise itself as a centralised, platform-based organisation through which various users spread across the business can quickly and efficiently request treasury services, whether it is working capital raises, long-term funding raises, or FX risk hedging.

Dutta concedes that existing IT systems, architecture and technology will need to be reconfigured and rewired while shifting to a platform strategy, which will probably not be without its challenges. But he signs off on an optimistic note: "We're still a young organisation and we don't have a lot of baggage to carry."

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Reliance Industries Limited at a glance

Founded: May 1973

Industry sectors: All connected to create value for India: energy, petrochemicals, refining and marketing, textiles, retail, natural resources, telecommunications, digital services, media and entertainment, banking

CEO: Mukesh Ambani (since July 2002)

Headquarters: Mumbai, Maharashtra

Workforce: 195,618 (as at 2019)

Revenues for year ending 31 March 2020: INR crore 6,59,205

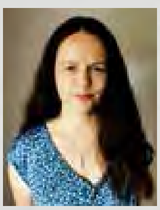
Profit before tax: INR crore 48,283

Significant launches, mergers and acquisitions: completion of 32.84% stake of subsidiary Jio Platforms to 14 marquee investors (July 20a20); US$7bn rights issue (June 2020); acquired NowFloats (85% stake, November 2019), Fynd (87.6% stake, Aug 2019), Hamleys (May 2019), DEN Networks/Hathaway Cable & Datacom (Oct 2018)

CSR: Reliance Foundation, established 2010, supports sustainable growth in India

Source: www.ril.com

One-way ticket?

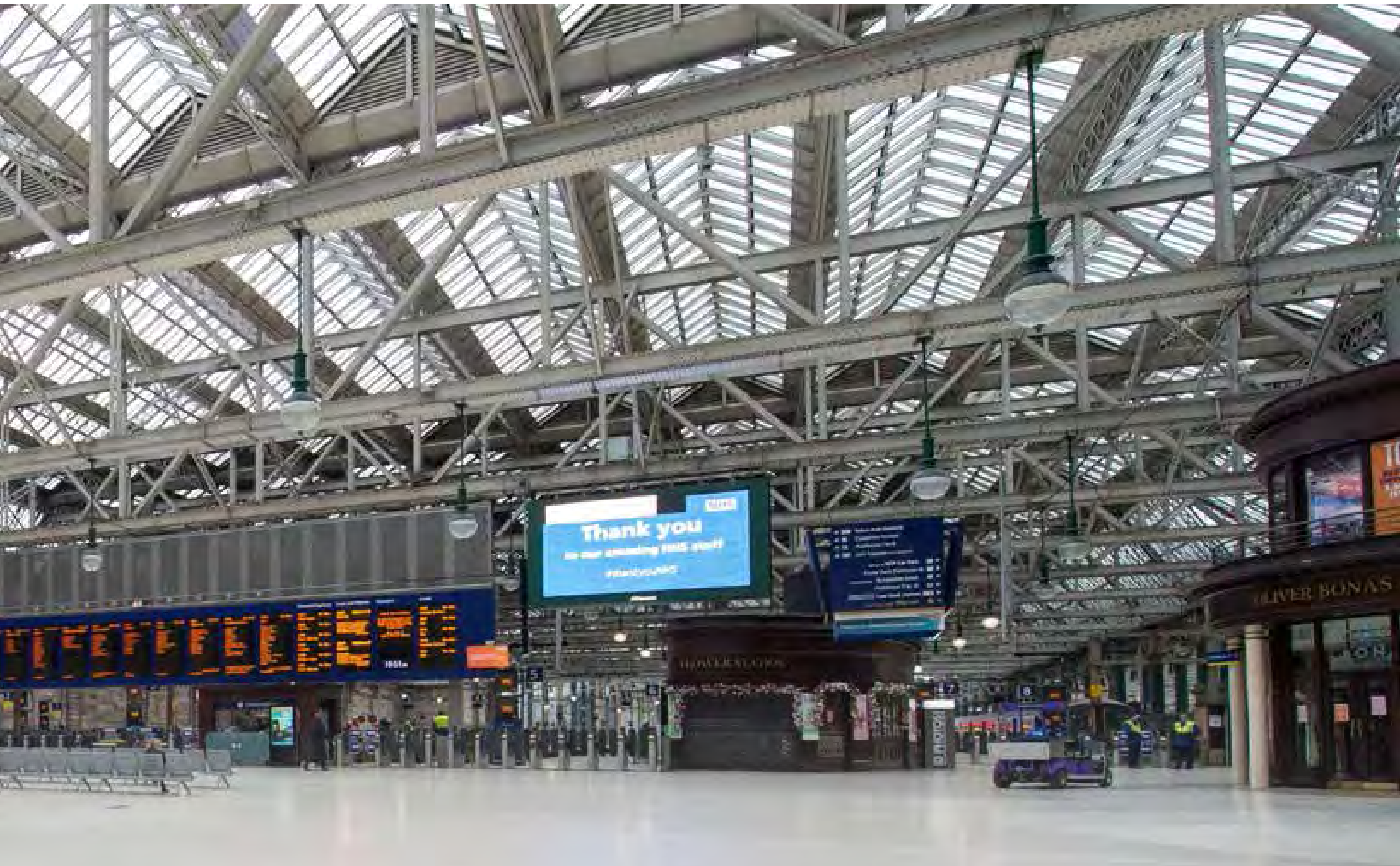


The Covid-19 pandemic forced corporate treasury teams to suddenly adapt to working from home, but not all of them are planning a return journey to the office anytime soon, reports Rebecca Brace

Covid-19 has tested business continuity plans around the world, with workforces abruptly leaving their offices to work from home until national guidance indicated some form of return would be possible.

For many individuals, the benefits of not travelling to work are considerable, such as escaping the daily commute and achieving a better work-life balance. But it also brings significant challenges, particularly when limited space is shared with partners who are also working remotely, when children need homeschooling and university students are doing their exams at home, as they are all competing for precious bandwidth.

As Deloitte spelt out in its March 2020 report, *Remote Collaboration: Facing the Challenges of Covid-19*, "Working remotely under these circumstances means adapting to a new environment, battling a new set of distractions as well as experiencing an unprecedented fusion of work and private life. In order to continue working efficiently and creating value under these



Central Station in Glasgow during ‘rush hour’

new circumstances, organisations need to understand, accept and support their employees’ specific situations and needs.”[1]

For corporate treasurers, whose day-to-day work involves analysis and oversight of risk management, liquidity/credit line management, corporate banking, and financial reports – to name just a few core functions that work well from an office-based digital boardroom – working from home brings additional hurdles. These range from ensuring that the required security controls remain effective to carrying out planned technology implementations without face-to-face workshops.

Starting a new role during a pandemic

As the UK entered lockdown on 23 March 2020, Daniel Jefferies was only days into his new role as Group Treasurer at Mundipharma, a global network of pharmaceutical companies across more than 120 countries. “Effectively starting a new job in lockdown is certainly a challenge – you haven’t yet had a chance to build up a network of contacts within the organisation,” he says. Like many others, Jefferies has also had to overcome various logistical challenges, from purchasing office equipment at a time of soaring demand to balancing the conflicting needs of work and the home education of his children while schools were closed.

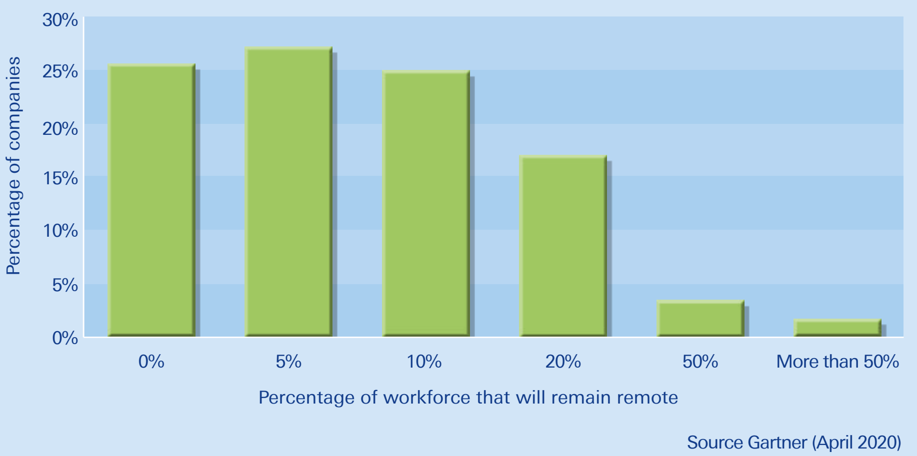
Jefferies’ remit is to establish a treasury function for the Mundipharma network, a role which ordinarily would have included business travel. In addition, numerous face-to-face meetings with banks were replaced with phone calls. But, as other homeworkers have found, the inability to meet colleagues at the office has kick-started routines of regular team calls and more interaction with “people that you wouldn’t normally interact with as frequently”.

In the weeks post-lockdown, a bank request for notarised pieces of documentation during the account opening process suddenly became more difficult to fulfil. “Finding a notary who was willing to do it locally was challenging, and sending the documentation to the bank took longer than expected,” Jefferies says. “So what normally would have taken two or three working days actually took two or three weeks, which was quite frustrating.” Nevertheless, he adds that banks have been very willing to work with him on solving such tests of logistical agility.

Overnight transition

As most employees found – with corporate treasurers no exception – the switch to homeworking happened virtually overnight. With Greece entering full lockdown on 22 March, the treasury team at Athens-based food multinational Chipita had to adapt rapidly, explains Group Treasurer Marianna Polykrati. One person continued to travel to the office to pick up cheques, make payments and handle invoices, while the remainder of the team worked from home. While homeworking had been far from

Figure 1: 74% of companies plan to permanently shift team members to more remote working after the pandemic



the norm for Chipita before Covid-19 struck, Polykrati says that the necessary measures were in place to continue treasury operations during lockdown, including remote access to servers, files and Bloomberg. From a cybersecurity risk perspective, new processes were adopted to double-check one-off payments or changes to payments.

For Martin Schlageter, Head of Treasury Operations at Swiss healthcare multinational Roche, the transition to working from home from mid-March was equally abrupt. "Until the end of Friday, everyone expected to be back in the office on Monday morning as usual," recalls Schlageter, who is based in Basel. "Then over the weekend we were asked to individually consider working from home as of Monday. Since then, we have basically been running the show almost completely remotely."

Roche's treasury is well-known for being at the forefront of centralisation and the adoption of new technology; its work with SWIFT gpi being one example of this.[2] In addition, the company was well-prepared for a remote working scenario and had previously undertaken pandemic preparations. "Many years ago everyone was supplied with a laptop, so that they could work from home if needed," Schlageter recalls. Consequently, treasury continued to operate as normal, and the team even successfully completed a full system upgrade remotely during the second quarter of 2020. Nevertheless, there have also been several obstacles to overcome. As lockdown continued, it became clear that some staff would need more equipment to work effectively, such as additional screens or printers, which the company has facilitated. Schlageter admits the need to provide physical signatures has been a further challenge: "We have team members living in Switzerland, Germany and France, and physically shipping documents across borders takes additional time," he says. "I think this is something the financial industry will hopefully improve on after the crisis."

An April 2020 McKinsey report, titled *The Digital-led Recovery from Covid-19: Five Questions for CEOs*,[3] makes the point that the pandemic has accelerated the quest for digital solutions: "For many companies, the only option is to accelerate their digital transformation. That means moving from active experimentation to active scale-up supported by ongoing testing and continuous improvement."

A catalyst for change

The pandemic has already proved to be a powerful catalyst for changes that might otherwise have taken longer to achieve. "We've been talking about it for the past few years – going digital, taking away manual payments, taking away the dependency of sitting in the office," says Dennis De-Weerdt, Global Head of Service and Implementation, Cash Management for Deutsche Bank Corporate Bank. "However, sometimes change can be a slow process. With the arrival of the crisis, there was no choice anymore – and that boosted the willingness to adopt change for both treasurers and banks." Greater readiness was something De-Weerdt's team acted upon promptly. They devised a solution for digital signatures that enabled clients to be onboarded to Deutsche Bank's products without the need for physical documents to go back and forth.[4]

A poll of more than 300 CFOs and finance leaders, conducted at the end of March by US research and advisory group Gartner, suggested that nearly three in four plan to permanently move at least 5% of their team to remote working once conditions return to normal,[5] as illustrated in Figure 1.

In July 2020, a Deutsche Bank Data Innovation Group (dbDIG) survey covering nearly 500 market professionals around the world found that enthusiasm for working from home among respondents, which was high in the early weeks of the pandemic, might be starting to flag, with 65% admitting they missed the office either a little or a lot, compared to 59% when a similar poll was conducted in June.

Alongside this there is, in general, a greater confidence about getting back to the workplace. "Compared to a month ago, there have been slight uplifts in willingness to return to work, send children to school, and use public transport," said Deutsche Bank analysts in the *Back to Work Monitor* issue of 6 July 2020, which was also based on dbDIG data. "The pattern is uneven, with Germany, the UK and the US showing small/zero gains. While the majority of continental Europeans are content to go back to their respective workplaces, the US continues to demonstrate greater hesitancy."

Many European countries began to loosen restrictions once the first wave of virus cases peaked in the spring – but will some treasury professionals continue to favour homeworking arrangements in the longer term? Schlageter says that since Switzerland's lockdown lifted, some members of Roche's treasury team have opted to return to the office, but many are continuing to work from home. For other treasurers, working from home is already a thing of the past: Polykrati reports that since Greece started lifting its lockdown in early May, Chipita's entire team has returned to the office – and she doesn't expect working from home to become the 'new normal'.

Figure 2: How many times a week do market professionals think they will work from home in the future?

Source dbDIG Survey, Deutsche Bank Research

"Banks and large auditing companies are still working remotely a lot, but for production companies like Chipita it's not that easy," she explains. "You really want to be able to have face-to-face discussions, as our company has production facilities, research and development for new products, marketing and promotions." Nevertheless, the prospect of a second wave of the virus has sparked several changes – for example, the company's treasury team may adopt a treasury management system so that more can be done electronically.

Treasurers may also face various practical hurdles where remote working is concerned in the long term. "Our workplace is in Switzerland, but we have colleagues living in Germany and France," says Schlageter. "There are certain legal restrictions, whereby cross-border commuters shall not spend more than 24.99% of their time working from home." He adds that while the rule was temporarily suspended during the crisis, "the question is whether this will be reinstated afterwards."

Future challenges

Looking ahead, one topic many are considering is the likely impact of future Covid-19 outbreaks – but with important lessons already learned, treasurers should be in a better position to handle any second wave. "Treasurers can have more confidence in cash forecasting in a second wave, as their assumptions would be stronger," says Johnny Grimes, Managing Director, Global Head of Liquidity Product, Transactional FX at Deutsche Bank. "They will have a clearer idea of how the markets might react from a foreign exchange perspective, or whether there may be tighter controls or changes to funding windows when moving money in and out of a particular country."

> Since mid-March we have basically been running the show almost completely remotely

Martin Schlageter, Head of Treasury Operations, Roche

Additionally, Grimes says, the outbreak has accelerated the development and adoption of digital solutions, which can better support treasurers in working from home. "They have more experience of using these services in stress scenarios, so they can factor them into how they want to work going forward," he adds. "I do think that will have an impact on treasury practices in the future."

In the meantime, while there are still issues to be resolved, it seems likely that working from home will become standard practice for more treasury professionals – particularly once learning to live with Covid-19 becomes business as usual. "I think people will go back to offices, but what will change is the mix between how much time they spend in the office and how much time they spend working from home," says Jefferies. "From an employer's perspective, there will be a change of approach. This has been a massive test in terms of seeing if people can still get their work done with the expected dedication – and they can."

Rebecca Brace is a freelance business and financial journalist and a former editor of Treasury Today

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Prescient on payments

Fifteen years on from its launch, the original business template of payment services and working capital provider Payoneer successfully anticipated today's growing online business volumes. Graham Buck reports

Many businesses derive success from meeting today's needs; others build their reputation on anticipating what tomorrow's needs will be. The latter course has been successfully pursued over 15 years by digital payments platform Payoneer, which has established itself as a major name in online money transfers, cross-border payments and working capital provision.

Payoneer's CEO, Scott Galit, has described its mission as "to empower global commerce by enabling businesses and professionals to pay and get paid globally as easily as they do locally". Users of its services can pay and receive funds via several methods, including credit cards, debit cards, electronic wallets and bank transfers.

The company works with businesses of all sizes to help them make and receive payments, ranging from an individual service provider in Ukraine, or a Chinese e-commerce company with hundreds of employees, to the world's largest brands such as Amazon, Airbnb, Google, Facebook and Upwork.

Through partnerships with such global platforms, covering both big businesses and the merchants and service providers they pay out to, Payoneer believes it has positioned itself to make international payments "seamless, secure, and fit for the digital age".

Before launching Payoneer in 2005 its founder and president, Yuval Tal, had already developed one of the first internet payment solutions companies, E4X (later renamed Borderfree), which today is part of US mailing technology firm Pitney Bowes. Payoneer aimed to provide companies with secure online cross-border payment solutions at a time when expensive wire transfers and analogue routes were the primary means for international payments. While the proliferation of online marketplaces and fintechs was yet to happen, the trends that led to their creation were already evident, says Jody Perla, Managing Director of Global Banking and Payment Infrastructure at Payoneer.

Democratisation of access

Having recently looked back at the company's first marketing presentations, Perla recounts that "the themes we identified in the early days are still very much around today, but in a more exaggerated way.

"Businesses of all sizes are increasingly global, demonstrating the ease of access made possible by the internet and technology," she adds. "This has transformed communication, interaction and the business of buying and selling.

Figure 1: About Payoneer

The democratisation of access means that wherever you live and whatever your size, now that borders have come down, you can create a business."

The move to online further accelerated early this year with the coronavirus shock, as lockdowns worldwide made working, shopping and conducting other transactions from home a necessity rather than an option. "Having experimented over a long period of time, with individuals and business tentatively dipping a toe in the water, the change in behaviour on both buyer and seller side has sped up," Perla confirms. "It has been a changing reality, but while the cause was unexpected, we anticipated these general trends – including the need for supply chain diversification. Relying on a single supplier or source is no longer sustainable, so we have seen huge growth in cross-border activity."

Financial inclusion

Payoneer's clients, ranging from major multinationals to small businesses and freelancers, are offered a one-stop shop for both sending and receiving payments, as well as providing working capital. Success stories on its website include Softogix International, an e-commerce company with offices in Dubai, UAE and Lahore, Pakistan, which also helps new e-commerce businesses grow.[1] Founder and CEO Muhammad Sabbayal started the business from scratch a couple of years ago from his Lahore home and now has an 18-strong team.

"The biggest problem is that you can't receive all payments in the same place; either you have to open several bank accounts, or you have to use different services," he explains. "I needed a payment solution which could help me receive all my payments in one place and be able to connect to all my online stores. With Payoneer, I can receive payments from all the platforms we are selling on, into one account."

Another customer is Jae-seop Lee, CEO at Krade International, a trading company that sells products from Korean small and medium-sized enterprises (SMEs) to global online markets such as Amazon, eBay, Rakuten and Qoo10. Since 2009, it has worked with its business partner in Australia to export fashion accessories from local markets in Dongdaemun and Namdaemun, in the South Korean capital Seoul.[2]

"Taking a closer look at our exporting business model, we realised that it could be more lucrative with accessories. So we started selling in global online marketplaces, starting with eBay," explains Lee. "With the expansion of the e-commerce industry, local sellers find it increasingly challenging to stand out from other brands in the market. At Krade International, we take care of the branding and marketing activities for these SMEs to increase their global appeal and demand."

400%
Increase in Payoneer's customer base announced in August 2019
(Payoneer)

In the past, these SMEs had difficulties getting paid from overseas marketplaces. "Establishing a legal entity overseas was pretty much the only way to receive funds from companies operating in a different country," adds Lee. With a single Payoneer account, the company was able to get paid from all Amazon marketplaces, including Amazon UK and Japan. "Payoneer has helped us minimise overseas business travel, as we no longer have to deal with the hassle of creating multiple bank accounts," he says.

Growth journey

"Back in 2005, our way of helping clients was through a prepaid debit MasterCard, which kick-started the business," recalls Perla. "It provided a range of options for payment recipients, who could access the money via an ATM or use the card online or at any point of sale. Over the years, the card has become more of a niche product, and today we provide a full range of financial services for businesses of all sizes.

"Payoneer has focused on both established markets and developing countries, with their new ranks of freelancers and digital entrepreneurs. The gig economy and small businesses have grown strongly in recent years, a trend that is further accelerated this year by the

Images: Alamy

shift to remote work for professionals all over the world."

The company's customer base has grown to around four million, from freelancers to major multinationals in over 200 countries. With its head office still in New York and its research and development centre in Israel, Payoneer's global network now extends to 21 locations and a workforce of around 1,500 employees. The company aims to bring them all together once a year, although the pandemic makes it impossible to do so in 2020, except virtually.

"We have people all over the world who look at the specific needs of each individual market," explains Perla. Half of the management team is female and she says that recruitment of "smart and motivated women" has always been part of the company's culture. "Many of the requests we see coming in are for regulated settlement, reflecting the fact that moving money around the world is a highly regulated activity – and that regulatory burden has steadily increased," she adds. "Payoneer can manage it. Our plug-ins for payment orchestration for both receivables and payables allow us to operate as a one-stop shop."

> Our plug-ins for payment orchestration for both receivables and payables allow us to operate as a one-stop shop

Jody Perla, Managing Director of Global Banking and Payment Infrastructure, Payoneer

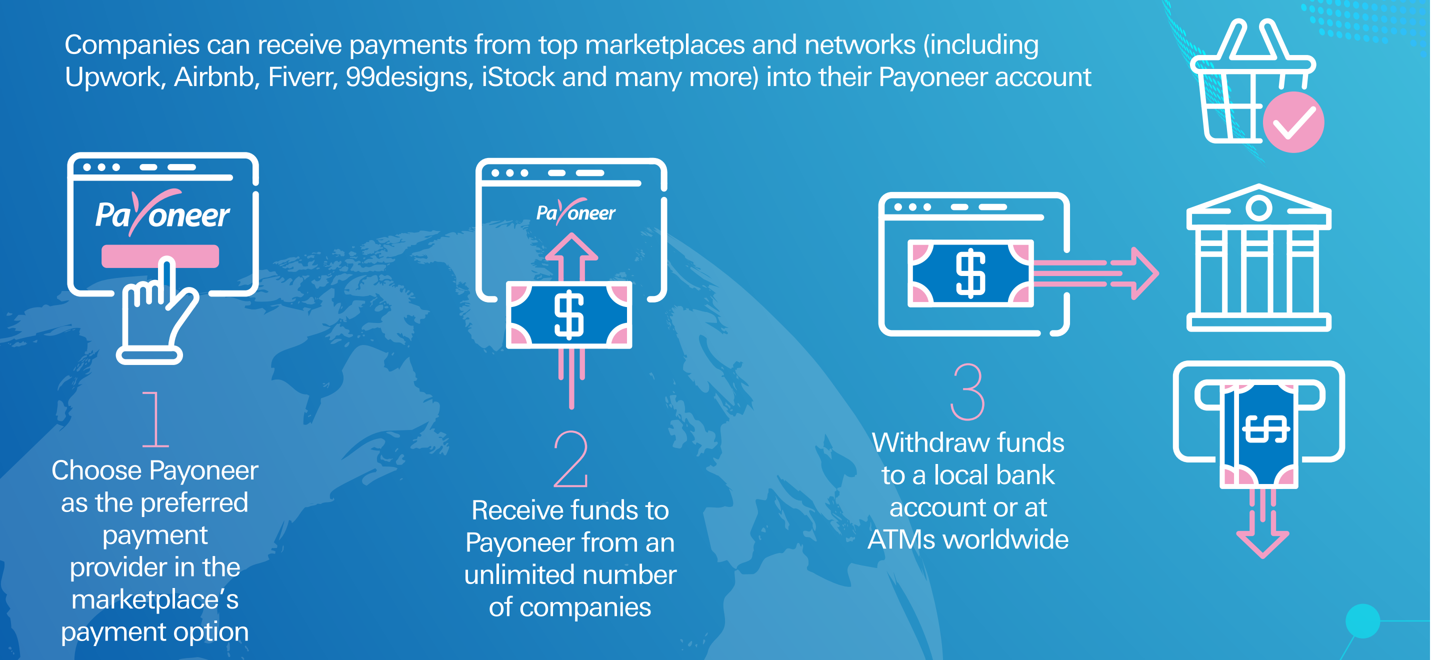
In 2019, Payoneer began offering working capital to Amazon and Walmart sellers and was able to use its insights into their sales to assess risk and extend the funds these companies need to grow. Last December, as part of its continued growth, it purchased German company optile, a cloud-based open payment orchestration platform for businesses to quickly expand into new overseas markets by adding new partners and payment options for receiving and collecting funds globally and locally.[3]

"The rationale for the optile acquisition was to access its technology and platform," Perla says. "optile, as a payment orchestration platform, is very synergistic with our core value proposition and helps propel us to expand into a full receivables platform as well."

Changing behaviour

Expansion also enables the company to access detailed data on money movement and provide research on topics ranging from Covid-19's impact on freelance workers to e-learning. In the case of the former,[4] Payoneer canvassed views from over 1,000 freelancers across more than 100 countries, asking them to share how the pandemic

Figure 2: The Payoneer payment process



Source: Payoneer

India is an FX-thirsty country which imports more than it exports

Rohit Kulkarni, Regional Head for South Asia, Payoneer

had impacted demand for their services, their hourly rates and what opportunities and risks they expected to arise from the crisis. Its findings were more upbeat than might have been anticipated: despite a short-term fall in demand, freelancers' hourly rates had proved fairly resilient and their post-pandemic prospects remained promising.

"Research reports are something we plan to do on a more regular basis, as everyone is desperate for accurate data and information," says Irina Marciano, Payoneer's Director of PR and Communications. "As the pandemic has shown, you can't predict accurately when your insights are based on past behaviour that has now become largely irrelevant."

Perla adds that the company has already proved adept in its ability to "pivot, react and respond" to unexpected events such as Brexit, extreme currency fluctuations, geopolitical issues, trade tensions and economic instability in emerging markets. "Each individual payment has its particular attributes, including the method of delivery, the purpose of the payment, the country in which it originated, where the funds are being delivered and more – it's the 'secret sauce' of online banking and payments. We're connecting dots around the world and complying with the regulatory requirements of each region."

A passage to India

The growth of Payoneer's global network included a move into India in April 2016, following a partnership with Pune-based IndusInd Bank and expressions of interest in its services from more than 10,000 freelancers and small businesses across the country. Reports such as a 2018 PayPal study suggest that India's freelancers represent around one quarter of the world's gig workforce and, according to Payoneer's *2020 Freelancer Income Report*, work for an average hourly rate of INR1,282 – just over US$17, against a global average of US$21.[5]

However, earlier this year Rohit Kulkarni, Payoneer's Regional Head for South Asia, reported that in 2019, Indian freelancers enjoyed year-on-year revenue growth of 29% and increasing numbers of those aged under 35 were joining their ranks.

Kulkarni comments that the company arrived in India ahead of a "watershed moment" for the country: the abolition in November 2016 of INR500 and INR1,000 banknotes, the highest denominations. "It marked a sea change for a country that has always had a large cash-based economy," he confirms.

"Many everyday payments have since gone digital, helped by the growth of digital wallets and the Unified Payments Interface [the real-time payments system developed by National Payments Corporation of India to facilitate bank-to-bank transfers]. Both have seen

Payoneer kick-started its business by offering clients a pre-paid debit MasterCard tremendous growth over the past three years, and over that period the number of Indians with bank accounts has almost quadrupled, from around 200 million to 750 million."[6]

In August 2019, Payoneer announced a year-on-year increase of 400% in its customer base and a threefold increase in payment volumes processed in India. It added that it was in talks with banks and non-bank financial companies to add working capital products to its payment services, although negotiations to gain the necessary regulatory authorisation have since been delayed by Covid-19.

In the same month, working with Deutsche Bank, the company launched digital Foreign Inward Remittance Certificates (FIRCs) for its sellers and service providers receiving payments from abroad. FIRCs are documents used as proof of foreign transfers and are accepted by authorities to evidence that an individual or business has received a payment from abroad in a foreign currency.[7] Payoneer was the first company to make this process digital.

As Yoon Choi, Global Fintech Cash Management Sales specialist at Deutsche Bank, notes, the partnership with Payoneer underlines the collective commitment to a "frictionless collection experience for the sellers and brings efficiency in the last mile of the payment value chain".

"India is an FX-thirsty country which imports more than it exports," says Kulkarni. Indeed, OECD data for 2018 showed total exports at US$326bn and imports at US$492bn, an imbalance of US$166bn. "If you're an exporter and want to be compliant, you need to complete the documentation, but until recently it took months to complete a transaction. The banks also charged hefty fees that reflected the large amount of physical work involved and the rather chaotic process.

"Digitisation makes the job much easier – the documents can be downloaded, sent to the bank and the whole process completed within seconds, which helps merchants considerably." The achievement was recognised when Payoneer won in the Best Payments and Collections Solution category in *The Asset*'s Treasury, Trade, SSC and Risk Management Awards 2020.

Payoneer's app makes it easy for customers to receive digital payments

Supporting India's recovery

At the time of writing (July 2020), the Covid-19 pandemic was growing steadily more serious in India, with the number of reported cases exceeded only by the US and Brazil. Covid-19 threatens the Modi government's target to reach US$5trn GDP by 2024, with an early lockdown pushing the country into recession without arresting the spread of the virus.

Kulkarni says that, as many of Payoneer's customers already worked from home, they suffered little disruption from the lockdown and in the early stages were able to maintain, or in some cases marginally increase, their business. In the long term, many questions remain. "Freelancers and SMEs will come under pricing pressure. Those with unique skill sets and good customer contacts should continue to do well, but others may find themselves undercut by workers in Bangladesh and other English-speaking regions, who may offer their services more cheaply."

If a second – or third – wave of the coronavirus proves more muted, India's long-term prospects are still strong, but the path back to growth could be a lengthy one.

Digital marketplace growth

The Payoneer story, says Choi, is a good example of how Deutsche Bank has not only been a strong banking partner to the fintech, deploying agile payment and FX solutions via the bank's global network, but is plugged into today's digital marketplaces.

"As demonstrated by our FIRC solution in India, we will continue to invest in our technologies and digital product offerings globally. We look forward to collaborating with Payoneer further as it expands its digital payment platform and product offerings," he adds. Based on the company's growth over its first 15 years, the journey ahead looks set to be an exciting one.

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An ESG lens to identify r!sk

Balance sheets and bottom lines are vital tools, but do they show a company's biggest risks? Elizabeth Pfeuti reports on how Covid-19 has forced the C-suite to pay more attention to environmental, social and governance themes, so their businesses can survive

What is the purpose of corporate governance? One of the most succinct summaries comes from the Institute of Chartered Accountants in England and Wales (ICAEW): "to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company."

The ICAEW adds that it's "about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day-to-day operational management of the company by full-time executives."

Unseen risk

A core aspect of a board's role is for members to understand the full range of risks their company faces. Identifying and mitigating them could be the difference between survival and collapse for even the most well-run of businesses.

Nimble organisations expect the unexpected and have the resilience and business continuity management (BCM) systems in place to tackle sudden arrivals of *force majeure* (a contractual term freeing both parties from obligation because of events outside their control) or any other external environmental shock that damages demand for their products and services overnight.

While nobody could have predicted the impact a global pandemic such as Covid-19 would have on industries such as airlines, tourism and hospitality, it has served as a wake-up call to review BCM strategies, update scenario planning routines and, for some, revisit business models.

In other words, the biggest threat to corporate survival may not be sitting in financial reports but lurking somewhere in the future. Risks often classed as 'non-financial' – such as 'black swan' events or *force majeure* – are set to grow in importance for company bosses, their investors and customers alike. Climate change, societal inequalities and unacceptable corporate behaviour all have the potential to confer pariah status on the most successful of companies.

Non-financial risks

At the start of the third decade of the 21st century, it is no longer acceptable for companies operating in either developed or emerging markets to ignore the risks posed by environmental, societal or governance (ESG) issues.

For example, the Deutsche Bank Research paper, *Climate Change and Corporates: Past the Tipping Point with Customers and Stockmarkets* (September 2019),[1] reported that customers can quickly lose their loyalty to a brand they feel has disappointed on an issue that is important to them. Just as companies must move with the times on the products and services they provide, they also need to be aware of how their customers' sentiment towards a broader range of issues is shifting too.

For decades, while consumers might have intended to purchase more climate-friendly products, they generally failed to do so. This inertia is now disappearing. In the 12 months preceding the report's publication, the number of UK consumers choosing to purchase from companies they regarded as active on the issue of climate change outstripped those who did not by two to one. The US showed a similar pattern.

Importantly, this is not a class or income issue; whether a company's products are premium or bargain basement seems to be largely irrelevant. "It doesn't matter if a firm's products are high-quality, low-cost, or B2B," found the research. It also noted that this trend is evident in consumer boycotts. Historically, these events have rarely dented corporate revenues, but this is changing. About one in three consumers have stopped buying a product from a company they "really liked" after it attracted bad press on its environmental record.

Recent survey-based research from Deutsche Bank's Capital Markets strategists estimates that nearly US$40trn of wealth will transfer from baby boomers to millennials over the next two decades, representing the largest generational shift of economic resources in human history.

The implications for corporate-customer relationships, and the global asset management industry, will be profound (see Figure 1).

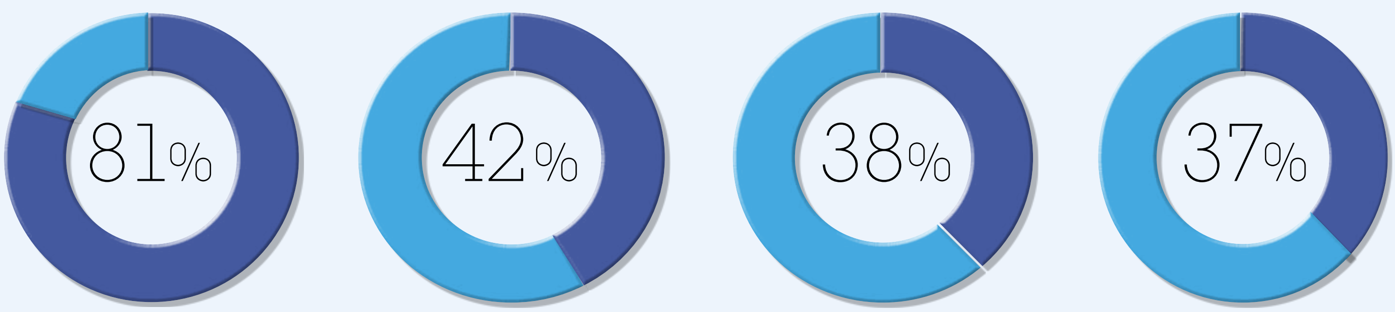
Another Deutsche Bank Research report, *ESG Through the Pandemic*, shows Covid-19 uncertainty stoking grassroots concerns, such as performance of an asset class and a social agenda extending beyond corporates' altruistic intentions to include sustainability reporting in their governance. While climate change was one of the most popular ESG topics in the US at the start of 2020 (see Figure 2, page 72), the research report also highlighted themes of 'employee wellness' (up 48%) and 'accounting practices' (up 38%). Other ESG topics that have increased in prominence are 'supply chains' (up 18%) and 'social inclusion' (up 16%).

Shareholder support

Broad public concern is swinging behind movements to limit fossil fuel consumption, reduce inequality and tackle questionable workplace practices, and investors are now exerting pressure to force through better performance on ESG issues.

The Global Investor Coalition on Climate Change, the Coalition for Inclusive Capitalism and the International Corporate Governance Network are three international

Figure 1: Millennials as consumers



% of surveyed millennials who expect companies to make a commitment to charitable causes and citizenships

% of surveyed millennials who will start/deepen a relationship with a business because it has products/services that positively impact the environment/society

% of surveyed millennials who will stop/lessen a relationship with a business because it has products/services that negatively impact the environment/society

% of surveyed millennials who will stop/lessen a relationship with a business because of its ethical behaviour

Sources: (1–2, 4) Deloitte *2019 Millennial Survey.* Based on views of 13,416 millennials questioned across 42 countries and territories. (3) Horizon Media

Images: iStock

bodies that campaign to improve company practices across the three ESG elements.

Rather than just aiming to improve corporate practices to ease a collective consciousness, these groups – representing trillions of dollars in institutional capital – recognise that the higher a company sets its targets on these measures, the more likely it is to have a successful, profitable future.

Correlation between a company's climate change performance and its stock falling by 0.3 percentage points relative to the MSCI World Index, leading to underperformance of 5% in 2019, was also reported in *Climate Change and Corporates* by Deutsche Bank Research (see endnote 1). This is irrespective of whether the stock was previously seen as being strong or weak on climate change issues.

Conversely, companies that were the subject of positive climate change news and made positive announcements on the issue saw their stock outperform the MSCI World Index by 0.8 percentage points per year, or an outperformance of 15%.

This trend is being picked up by consulting firms. According to McKinsey's November 2019 white paper, *Five Ways That ESG Creates Value*,[2] "A strong ESG proposition correlates with higher equity returns, from both a tilt and momentum perspective. Better performance in ESG also corresponds with a reduction in downside risk, as evidenced, among other ways, by lower loan and credit default swap spreads and higher credit ratings."

Regulatory momentum

Regulators have joined the groups agitating for change, with new rules being drafted that could dramatically impact operating models, or even the very ethos of business. Regulation covering ESG has become more prolific over the past decade, and in 2020 the EU has consulted on new measures to demand that companies disclose their exposure to these supposedly non-financial risks.[3] The EU argued that without detailed reporting on these matters – including a range of factors falling under the ESG banner – investors would lack a clear view of a company's long-term performance, even if all financial detail was shown.

The concerns of younger investors are persuading companies to focus more on ESG risks

> ESG factors are risks that, as a company, you have to manage. You cannot ignore them as they can present hard edges for your business
>
> Gerald Podobnik, Chief Financial Officer, Deutsche Bank Corporate Bank

The European Commission continues to pursue a green growth strategy, providing a roadmap with new actions to increase private investment in sustainable projects. This is alongside activities to support the different actions set out in the European Green Deal and to manage and integrate climate and environmental risks into the financial system. The initiative will also provide additional enabling frameworks for the European Green Deal Investment Plan.

In addition, ESG is rapidly becoming a compliance issue. "The role of the chief compliance officer in ensuring that ESG disclosures are accurate and truthful is significant, starting with compliance with environmental and health and safety laws, where applicable," commented Kristen

Sullivan, a Partner and Sustainability and KPI Services Leader with Deloitte & Touche LLP, in an interview with Compliance Week (December 2019).[4]

Strategic imperative

Encouragingly however, many firms are adapting the way they operate. According to Gerald Podobnik, CFO and Chief Sustainability Officer of Deutsche Bank Corporate Bank, the number of companies failing to genuinely engage on these issues is in rapid decline.

"Maybe five to 10 years ago, it depended heavily on the CEO and whether they saw ESG as a strategic imperative," says Podobnik. "Over the past two years we have seen many starting to adapt to these issues, seeing them as a basic licence to operate going forward. We have even seen some movement towards linking remuneration to certain ESG factors or improvements in some companies.

"ESG factors are risks that, as a company, you have to manage. You cannot ignore them as they can present hard edges for your business," he stresses. "They also present a massive opportunity to reshape your business going forward, because when the economy changes, corporates have to follow."

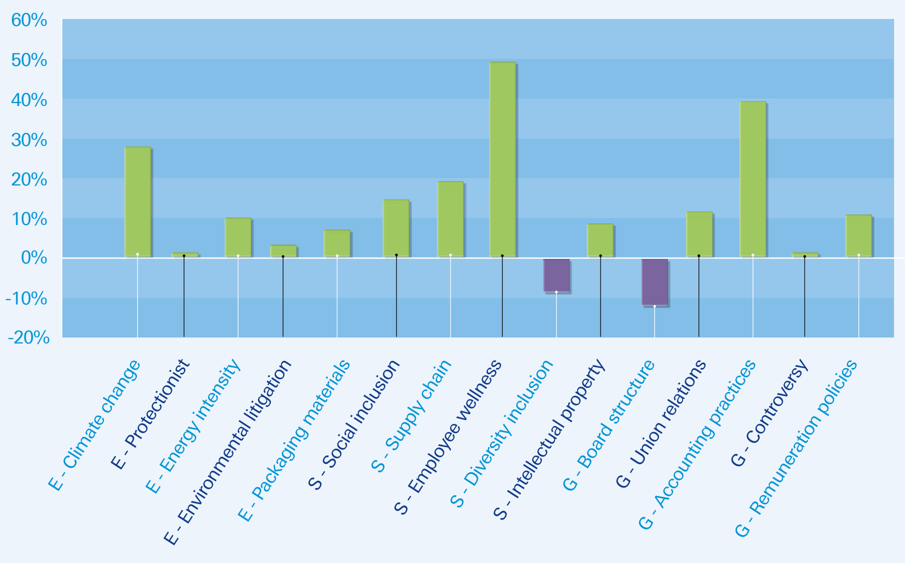
No bigger opportunity to reshape presents itself than a global economic shutdown and subsequent revitalisation of international trade, which may also allow businesses to fundamentally address how they operate.

"The pandemic has given the social dimension of ESG a far greater importance, because we saw how vulnerable our economies and societies are," says Podobnik. "The resilience of the economy and its transformation are intertwined, and companies are going to be an essential part of both."

It might be easy to convince a fossil fuel producer of the danger to its business model posed by the energy transition, but it is less straightforward in other, less clearly linked sectors to foresee potential obsolescence if ESG risks are not taken on board.

Figure 2: Employee wellness is now the hottest topic in the US

Increase in mentions in US company documents (monthly average of 4 million to June 2020 versus 4 million to June 2019)



Sources: AlphaSense, Deutsche Bank

> **We are putting ESG at the centre of everything we do**
>
> Reyer Kooy, Head of Liquidity Management EMEA and Asia, DWS

Walking the walk

Do sustainable banks outperform? This was the subject of a 2020 report from Deloitte that concluded that:

- A strategic focus on ESG can lead to financial outperformance across industries (prior research), and specifically for banks.
- Banks with good performance on material ESG issues outperform those with bad performance on the same issues by more than 2%.[5]

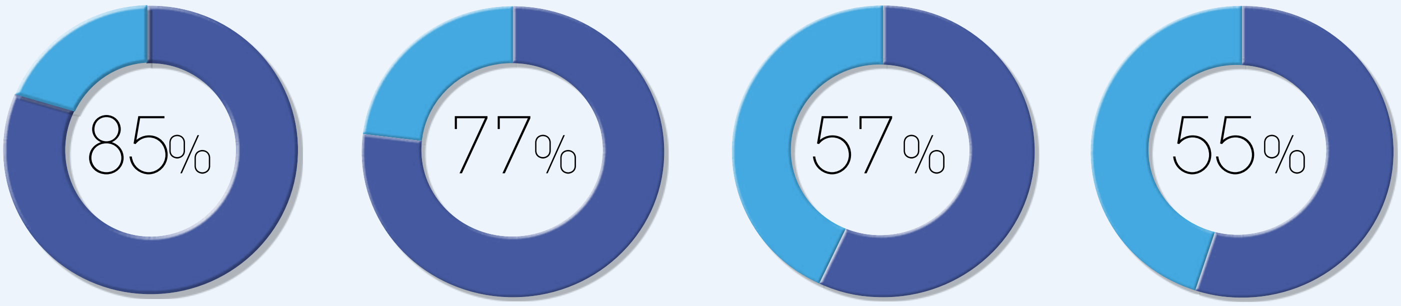
In May 2020, Deutsche Bank set out its own sustainability targets.[6] They include powering operations entirely from renewable energy by 2025, building on almost 80% of electricity used across the world already coming from these sources.

But as a bank, there is, according to Podobnik, a responsibility to do more – and an opportunity to help clients take a step towards a more resilient future. Seeing a natural fit between ESG and his CFO role, Podobnik assumed the additional post of Chief Sustainability Officer last year, with the remit of crafting a distinct set of ESG products for clients of Deutsche Bank Corporate Bank.

The bank also aims to increase its volume of ESG financing and portfolio of sustainable investments under management to €200bn by the end of 2025. This means working with businesses to provide solutions such as classic loans that can be issued for sustainable use, or even linking interest rates on lending to the borrower achieving certain sustainability scores.[7]

Within the capital markets, Deutsche Bank is committed to boosting the number of green bonds issued to finance sustainable projects or upgrades.[8] In June 2020, it issued its own €500m green bond, with the proceeds of the issue to be used

Figure 3: Millennials as investors



% of surveyed millennials interested in sustainable investing, up from 75% in prior year

% of surveyed millennials who cite owning ESG or impact investment in their portfolios

% of surveyed millennials who have declined an investment because of a company's impact on people's health and wellbeing

% of surveyed millennials who have discussed ESG investing with a financial professional

Sources: (1–2) MSCI, *Swipe to Invest: the Story Behind Millennials and ESG Investing*, March 2020. (3) Allianz, *ESG Ethics and Investing: How Environmental, Social and Governance Issues Impact Investor Behaviour*, May 2019. (4) Weber Shandwick, KRC Research: *CEO Activism in 2017: High Noon in the C-Suite*

exclusively to refinance the bank's own sustainable projects, such as the expansion of renewable energies.[9]

Clearly, there is growing demand for these products. Global green bond and loan issuance climbed by nearly 50% in 2019 to a record high of US$254.9bn, according to the Climate Bonds Initiative.[10] A further €50bn was issued in the year to the end of April, despite the near closure of global capital markets. Such is the demand from investors that Denmark and Germany are set to issue government-backed green bonds in the near future.

Day-to-day sustainability

Outside long-term borrowing, companies need day-to-day liquidity to meet cashflow needs and finance supply chains, and DWS – Deutsche Bank's majority owned asset management business which manages the liquidity of many of the Corporate Bank's clients – has been pushing ahead in innovation.

"We are putting ESG at the centre of everything we do," says Reyer Kooy, Head of Liquidity Management EMEA and Asia at DWS. "We view this as an absolutely critical area of our strategy, and we want to talk about how this connects to the corporate community. We are already seeing it driving the core behaviour of many companies we interact with." This strategy aligns with millennials caring more about ESG as investors (see Figure 3).

Many of the clients Kooy works with have already set corporate strategies, initiatives and science-based targets that focus on the 'S' and 'G' elements, along with the 'E', which is the most mainstream. "This trickles down to treasurers, who are looking or are being mandated to find ways to contribute to the sustainability and the ESG goals of the company," Kooy adds.

Future forward

To meet this ever-growing mandate, in 2018, DWS launched the first money market fund (MMF) in the US to use ESG criteria to select its holdings.[11] DWS has extended the ESG process to some of its MMFs in Europe, and hopes in time to have all of its MMFs in an ESG format.[12]

By the end of 2019, other fund managers had followed suit, with assets across the whole universe of ESG-focused MMFs having grown by 30% to €70bn. This rate compared favourably with the 15% estimated growth in traditional vehicles, according to ratings agency Fitch.[13]

To help corporate clients stay in line with their internal ESG strategies, DWS has strict policies around MMF investment criteria. "Along with only selecting the highest-rated securities from a credit perspective, we have a basic level of ESG built into all of our strategies, and we can show and report how each fund scores on these criteria for our clients," says Kooy. "But for the ESG-labelled funds, we have a scoring system for each counterparty that is in the fund, and we will not select a security if the issuer does not reach the required score."

While regulatory, compliance and financial reporting frameworks, along with investor appetite, are clearly accelerating sustainable behaviour, it is encouraging to see that ESG is becoming baked into corporate consciences and executives' individual passions for their businesses.

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Fast-forwarding capital markets

In today's business environment, investment firms need to be able to make quicker decisions, remove latency and eliminate manual tasks. *flow*'s Janet Du Chenne reports on how BNY Mellon's technological transformation has enabled it to help clients achieve this

When the Covid-19 pandemic triggered stock market volatility in March,[1] senior leaders in financial institutions braced themselves for what was to be a pivotal moment in their careers.

Rohan Singh, Global Head, Asset Owners and Head of BNY Mellon's Asset Servicing business in Asia Pacific, recalls an "avalanche of volume". Sharing his experience with fellow capital market luminaries during a webinar hosted by *The Asset* magazine on 24 June 2020,[2] he revealed that the business had seen more than US$3trn in payments in the last two weeks of March, [while] market volatility spikes were hitting 1.3–1.4 standard deviations and foreign exchange (FX) trade volumes were 50,000 a day, more than double the 2019 average.

This came just as Singh's team was making the adjustment to full-time homeworking; BNY Mellon transitioned approximately 95% of its employees to working from home at the start of the pandemic. Despite varying WiFi and connectivity, the workforce was successfully mobilised to work remotely and clients were serviced with minimal business interruption.

BNY Mellon is one of the world's largest global custodian banks, providing custody and/or administration to US$37.3trn of the world's investment assets on behalf of institutional investors such as pension funds and asset management companies, so adapting to the crisis was no mean feat. As a result of its unique position, the company has oversight of data on transaction flows relating to those assets as they pass through its processing and securities settlement engine, which helped with the massive task of handling those payment volumes.

Heightened volatility in capital markets highlighted the company's fundamental role as the engine through which those transactions can flow, and it ensured they did so as seamlessly and efficiently as possible. Business continuity therefore became BNY Mellon's most important priority at the start of the pandemic, to help settle their clients' securities trades on time and provide the related asset services, such as tax processing, at a time of uncertainty. The company demonstrated operational resilience, said Singh during the webinar, who added that "we feel very heartened that we got through that period as we set ourselves up for the new normal".

Covid-19 accelerates transformation

The speed and efficiency with which BNY Mellon adapted to the crisis laid the groundwork for the fundamental role it will play in keeping capital markets functioning as that new normal emerges. For this 236-year-old financial institution, Covid-19 also accelerated a digital transformation journey that was already under way. It has sought to build a digital DNA into all of its products and advance its data agenda in order to deliver data-driven insights and seamless user experiences on a par with the most optimal consumer experience, as well as create innovative new capabilities. All of this helps its asset manager and asset owner clients to grow revenue, reduce expenses and minimise risk.

Anand Rengarajan, Head of Deutsche Bank Securities Services Asia, noted during *The Asset* webinar that the entire industry faced a "paradigm shift where we have all worked on various digital initiatives that have been necessary from an efficiency and regulatory perspective – and that journey has helped us overcome the current situation successfully".

In the case of BNY Mellon, digital initiatives that have been advanced in response to the crisis include the move from wet signatures to digital ones. Partnering digitally with Deutsche Bank (which offers local custody in various markets globally), BNY Mellon quickly implemented a system enabling asset management clients to sign off on documents digitally rather than physically. Singapore-based Eastspring Investments, the Asian asset management business of Prudential plc, embraced this capability. During the webinar, Jeroen Buwalda, the asset manager's Chief Operating Officer, praised the "great collaboration across the industry with banks such as Deutsche Bank and BNY Mellon".

Images: iStock

Accelerating technology-led transformation is a crusade not to be undertaken alone

Rohan Singh, Global Head, Asset Owners and Head of BNY Mellon's Asset Servicing business in Asia Pacific

Commenting on the deployment of digital signatures, Michaela Ludbrook, Deutsche Bank's Global Head of Securities Services, agrees that the pandemic stimulated plans the business wanted to accelerate, rather than inhibiting them. "With the crisis precipitating homeworking across various locations around the world, we have employed digital tools such as electronic signatures, transparency around flows, data reporting and lifecycle transparency to help our clients and our clients' clients in the 30-plus markets we operate in," she says.

Paradigm shift

Digital signatures are just one part of a transformational journey that began at BNY Mellon some years ago and gathered momentum with a series of investments into digital technologies and new digital products (and data solutions) to help drive business wins with clients. Between March and June 2020, BNY Mellon migrated more than 100 clients to its digital solutions, and it is aiming to accelerate its digital plans for all asset servicing clients.

In July, BNY Mellon announced that it had collaborated with Deutsche Bank Securities Services on an application programming interface-based (API) solution that automated time-sensitive FX custody-related processes and dramatically improved confirmation times for restricted emerging-market currency trades.[3] The API solution, which leverages existing bots between the two companies for instantaneous communication to help eliminate market frictions, can also bring trade remediation closer to the time of execution. The resulting benefits also include reduced price slippage for clients between the FX leg of a transaction and the equity or fixed-income security trade. The solution has enabled BNY Mellon to achieve a significant reduction in turnaround time for an FX-related process, from 48 hours to just 8–10 seconds.

The solution is already live in South Korea for the won, with the Indonesian rupiah and the Indian rupee targeted next. Subsequently, it will be progressively rolled out to a broad range of restricted currencies that are linked to investors' underlying equity or fixed-income transactions.

Making the connection

BNY Mellon's bot-to-bot interfaces with partners such as Deutsche Bank were conceived back in 2018 to further automate securities processing and settlement and remove manual steps in the process. The connectivity was first conceived to settle securities transactions in the Hong Kong market on behalf of asset traders in the region.[4] The connectivity has since expanded to include other markets in Asia.

Roman Regelman, BNY Mellon's CEO of Asset Servicing and Head of Digital, introduced the launch of OMNI℠, an interconnected global network that brings together digital-driven solutions and tools across the investment process, in a thought leadership piece.[5] He described it as "a great example of what the future can look like" and explained that clients can access this network in a streamlined, frictionless, fully integrated ecosystem that includes BNY Mellon's partners and parts of the company beyond asset servicing.

He also pointed out that "OMNI helps our clients power their growth through distribution, data and analytics; increase efficiency and resiliency; and drive agility so that clients use optimal technology and can act nimbly in an ever-changing landscape."

Digitising the company

The digital habit has gained traction in the past two years. Todd Gibbons, who became the permanent CEO of BNY Mellon in March 2020 (he had served as interim CEO since September 2019), has noted that "there has been an acceleration this year in the adoption of digital solutions by our clients, who continue to review opportunities to automate".

The increasing use of these digital solutions during the pandemic has accelerated digital transformation of asset services at BNY Mellon, driving the recent expansion of Regelman's Head of Digital role to include Asset Servicing, a business that was already at a critical point in its evolution. He has made it his mission to digitise every aspect of the company, to make it even more relevant to its clients – "removing unnecessary complexity and processes to become more nimble and able to rethink how we help our clients deliver and maximise value".[6]

Regelman identified three digital horizons as part of this strategy:

- Core digitalisation: streamlining existing operations by re-engineering processes and deploying technologies while increasing the breadth and speed of incoming information to drive decision-making;
- End-to-end client reimagination: rethinking client journeys end-to-end from the client perspective to reduce complexity and create seamless digital experiences, using agile development techniques to rapidly prototype and implement changes; and
- Digital business development: creating new opportunities by building innovative digital products and services and establishing an open ecosystem of solutions combining external and BNY Mellon capabilities.

The goal of combining the company data with client data was achieved in April 2019 when BNY Mellon integrated its data insights, accounting and servicing tools into Aladdin, BlackRock's investment and operating platform for investment managers.[7] These insights offered near real-time trade lifecycle information and more precise intra-day projections of net cash positions to enhance front office decision-making and closer data integration and shared workflows in Aladdin, substantially improving operational efficiency and processing rates.

Doing more with data, front to back

This front to back unification of data has been central to the company's digitalisation journey. In a related initiative, it has

BNY Mellon has worked with Deutsche Bank to enable clients to sign documents digitally rather than physically

100+

clients migrated to BNY Mellon's digital solutions between March and June 2020 (BNY Mellon)

connected platforms and open ecosystems with a range of fintech firms and order management systems to provide new data solutions for asset managers and owners.

In May this year, BNY Mellon deployed natural language processing artificial intelligence to provide enhanced data and analytics services for its buy-side clients. It collaborated with fintech firm Arria NLG, a provider of natural language generation, to integrate the technology into its Eagle Performance and Data Management solutions suite.[8]

"Our asset management clients were previously using multiple technology vendors and multiple order management systems for their trades," explained Singh during the webinar. As custodian, BNY Mellon explored how to use digital tools to connect with asset managers' infrastructure to empower portfolio managers at those firms with real-time insights that enabled better decision-making. "Making our clients more efficient is critical to our success," he added.

BNY Mellon is creating an open ecosystem by collaborating with industry participants as the company looks to transform its core processes and deliver new services. Since announcing a strategic alliance with BlackRock, the company has also partnered with Bloomberg to unify its front to back data integration capabilities, leveraging the transaction information flowing through its asset servicing and processing engine to deliver actionable insights to clients.[9]

The integration of firm-wide custody data at BNY Mellon and connectivity with investment managers' platforms has also helped reduce latency in the front office by "demonstrating dashboard widgets that give the portfolio manager advanced time to be able to execute decisions on a transaction that their risk system is signalling," said Singh. "We want to connect to everything and

Images: iStock

anything we can, improve their workflow experience and remove steps from the reconciliation process."

In fund accounting, Singh said the company is deploying bots to remove some of the reconciliation work in the process. It is working with machine learning to predict error rates in derivative trade models, which require a lot of manual interfacing before they can be uploaded into trade blotters. "These are some of the ways we are making ourselves more efficient, and our client base as well," he concluded.

It is also using robotic process automation (RPA) to help clients eliminate other manual tasks. For example, Prudential's Asian asset manager Eastspring has managed to automate or outsource over 80% of its processes across the front, middle and back office to companies such as BNY Mellon. "This leaves me with around 3,000 manual tasks," said Buwalda during the webinar. "Using RPA, I can remove another 1,000 of those. The best way to test new technology is to work very closely with our service providers, our brokers and the regulators to co-create new solutions."

Writing in his blog on BNY Mellon's website in August,[10] Regelman asserted that "if Covid-19 reinforced anything, it is the critical need to digitise every process and interaction. It happened in custody years ago, and it happened in accounting. We see digitisation transforming administration today. Going forward, we'll see just about every part of what was once in the realm of bespoke client service become automated."

Highlights from BNY Mellon's accelerated digital journey

Sep/Oct 2018	Roman Regelman joins BNY Mellon as Head of Digital and forms the Digital Council to drive the execution of the digital agenda across the institution
Apr 2019	BNY Mellon partners with BlackRock to deliver integrated technology and servicing capabilities across the investment lifecycle
Jul 2019	Launch of the BNY Mellon Data and Analytics Solutions business to help clients better manage and leverage their data in the front, middle and back office
Sep 2019	A strategic alliance is announced that further integrates BNY Mellon's data, analytics and servicing capabilities with Bloomberg AIM
Jan 2020	Regelman appointed as CEO of BNY Mellon Asset Servicing, and continues as Head of Digital
Feb 2020	BNY Mellon onboards UK investment manager Liontrust Asset Management as the first end-to-end client to its new investment operations platform
Mar 2020	In response to Covid-19, it begins to migrate 100+ clients to its digital solutions and accepts digital signatures on many tax-related forms to support remote processing
May 2020	Collaborates with Arria NLG to help asset managers and asset owners transform data into actionable analytics with natural language processing artificial intelligence
Jun 2020	Launches three new Data and Analytics Solutions offerings and collaborates with Microsoft to build data, technology and content solutions on Microsoft Azure
Jul 2020	Collaborates with Deutsche Bank to develop a new API-enabled solution to help improve custody FX for restricted emerging markets trades
Aug 2020	Announces the launch of OMNI, an interconnected global network that brings together leading solutions and tools across the investment process

Advancing the digital crusade, post Covid-19

With Covid-19 helping to accelerate BNY Mellon's digital transformation, the company announced a partnership with Microsoft in June 2020. It will use Microsoft's flagship Azure platform for three new Data and Analytics Solutions offerings on distribution analytics, environment, social and governance data analytics, and a new cloud-based data vault.[11]

Commenting on the initiative during the company's second quarter earnings call, Gibbons said the company "could see some meaningful growth driven by the data and the digital and data analytics that we're offering…If you look at our pipeline, if you look at the growth rates that we've demonstrated, we are seeing a little bit of organic growth for the first time in a while."

Custodians such as Deutsche Bank have also driven home the importance of real-time data that can be leveraged by custody providers. As the bank's Rengarajan said during the webinar, "firms needed to move away from a singular dashboard focus of their securities data towards one where that data is used to generate meaningful post-trade insights for clients and enable them to improve their operational processes."

Singh agreed, adding that simply having a data warehouse is no longer enough, and that using that data to generate meaningful insights will be a differentiator when it comes to fast-forwarding capital markets.

"Partnerships and collaboration are important for all of this, and accelerating technology-led transformation is a crusade not to be undertaken alone," he noted.

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The personal touch

Twenty-one years after it was established, the UK-Swedish biopharma company AstraZeneca is one of the first developers of a candidate vaccine against Covid-19. Janet Du Chenne finds out how a people-centred mindset makes a difference in scientific innovation

In February 1953, Francis Crick and James Watson famously burst into The Eagle pub in the UK university town of Cambridge, announcing they had discovered "the secret of life", the twisted ladder double helix structure of a DNA molecule. Seven decades later, just a few miles from where the two biologists made their discovery, biopharmaceutical company AstraZeneca could be on the verge of another landmark DNA breakthrough.

By observing the cells that monitor and repair complex damage to both strands of the DNA double helix, it aims to exploit the DNA damage response (DDR) pathway as one of several approaches to treat cancer. Scientists are targeting cancer-specific DDR deficiencies,[1] using a combination of inhibitors to repair single cell strand breaks and achieve stronger and more durable response pathways, along with other targeted therapies and traditional treatments. The discovery builds on the company's approved blockbuster medicine, LYNPARZA.

Oncology is one of AstraZeneca's three main therapy areas, along with cardiovascular, renal and metabolism; and respiratory diseases and immunology. With a portfolio of 175 projects in various stages of clinical development as of July 2020 (according to its website),[2] the company uses technology to accelerate innovative science (see Figure 1), while a 'people-first' approach guides its aim to contribute value to patients and society.

A key measure of that value is the provision of access to healthcare. AstraZeneca has teamed up with the University of Oxford – despite its Cambridge headquarters – to develop and distribute the University's Covid-19 candidate vaccine.[3] Announcing the development when the virus was rapidly spreading at the end of April 2020, Pascal Soriot, AstraZeneca's CEO, said: "Our hope is that, by joining forces, we can accelerate the globalisation of a vaccine to combat the virus and protect people from the deadliest pandemic in a generation." AstraZeneca will supply European countries with up to 400 million doses of the University of Oxford's candidate vaccine at no profit, via a partnership with the newly formed Inclusive Vaccines Alliance.[4]

Shortly before this announcement, AstraZeneca became the largest company in the FTSE 100 share index by market value.[5] An early trial involving 1,077 people showed promising results, with the candidate vaccine shown to trigger a strong immune response (producing both antibodies and T-cells) without any dangerous side effects.

Figure 1: AstraZeneca's three strategic areas of focus

Source: AstraZeneca

Putting people first

A 'people-first' approach to innovative science also guides AstraZeneca's investor relations (IR) strategy. Thomas Kudsk Larsen, the company's Head of IR, says that personal values, which for him were ingrained at an early age, combine with pharma to make this strategy work. He recalls how, as a child, he would occasionally accompany his mother to hospitals and care homes, where she worked as a nurse. "I had it in me to do something that would help people who were sick and give me a good reason to work," he reflects.

Larsen was guided by this early experience to join Danish biopharma company Novo Nordisk as a finance trainee in 1995. From then on he made building and maintaining relationships with people a central theme of his 20-year IR career at multinational biotech companies, using these skills and values to engage external stakeholders and convince them of their value.

So far, the policy has worked. A few years after joining Novo Nordisk, Larsen joined a project to split the company into two separate entities: a pharmaceuticals business and an industrial enzymes company called Novozymes.[6] He needed to convince investors of the value of this restructuring and used his accounting and interpersonal skills to earn their trust. After four years in Novozymes' IR team, in 2005 he joined Swiss group Roche, where he helped to launch a programme through which US investors could buy American Depository Receipts (ADRs), US dollar-denominated securities that represent equity ownership, on the over-the-counter market.[7]

After almost a decade at Roche, Larsen moved to AstraZeneca in 2014, where he still employs the same invaluable lessons of maintaining relationships built on trust in managing the Nasdaq Stock Market-listed ADR programme. His job involves regular contact with AstraZeneca investors, both in the US and also in the UK and Europe, with the company maintaining listings in London, New York and Stockholm. As part of the IR team's outreach it hosts capital markets days, investor days and a number of science-focused events for sell-side analysts, including one at The Eagle, where Crick and Watson announced their DNA breakthrough.

Running the ADR programme

Given that US investors in the ADR programme are geographically further away, Larsen maintains the same people-centred approach that he's employed over the past two decades to engage them. "I'm not a huge believer in targeting," he says. "I don't believe you can sit at a desk and then predict who is going to buy your stock. Personal relationships and trust are more important. There is nothing more important than trust when you invest in a company with all of its financials and strategy and, in our case, a product pipeline."

Larsen believes this mindset is a starting point for any dialogue with investors.


AstraZeneca's new Cambridge R&D Centre

"That combination of what we stand for as a company and many years of deep personal connections serve as the catalyst for a conversation with the investor – because if they trusted you before, they will likely trust you again." He points to an old Dutch proverb, 'trust arrives on foot, but leaves on horseback'. "It takes a long time to build and if you do something wrong you can lose it quickly," he says.

Maintaining these relationships from Cambridge requires agility and compromise, especially given that the company is almost half-owned (47%) by US shareholders in the ADR programme.

The programme builds on legacy ADR programmes following the merger of Sweden's Astra and UK's Zeneca in 1999.[8] "We have been increasing our US shareholder base in line with our business strategy as American investors appreciate our investment in science," says Larsen. "This recalibration is a better fit between our strategy and our investment in science."

Many biopharma companies use their US manufacturing hubs as a base from which to target investors. By contrast, AstraZeneca has opted against this strategy. Larsen expands on this decision in light of Covid-19. "With the coronavirus that was the right thing to do because I would not have wanted a member of the team stuck in the US now," he says. "In the UK, everyone is in relative close proximity and we are all using virtual communications to manage the ADR programme from Cambridge."

China again an asset

In line with AstraZeneca's 'three-pillar' emerging markets strategy (see Figure 2, below), China is an important market for manufacturing and exploration.[9] The company has been present in the country since 1993, with headquarters in Shanghai, and it has invested in the delivery of medicines at manufacturing centres in Taizhou and Wuxi.

China is AstraZeneca's second-largest market after the US, with around 20,000 of the company's 70,000 employees based there and a growing portion of its work happening in emerging markets. "It's much bigger than others in terms of the workforce and the Chinese passport is the most prevalent in our company," Larsen explains. The company's emerging markets growth was up by 15% in the first quarter of 2020 in Asia, and by 14% in China specifically during the same period.[10]

This growth comes despite the Covid-19 outbreak in late December 2019. As the largest multinational pharma company in China, this was a major setback for AstraZeneca, and Larsen recalls that the IR team spent a lot of time explaining the manufacturing set-up there to investors. However, Larsen believes that "China is becoming an asset again and the country has got the virus more under control."

Figure 2: AstraZeneca's 'three-pillar' emerging markets strategy

Source: AstraZeneca

Staying in touch

With Covid-19 disruption making it harder to meet investors and the community face to face, Larsen and his peers have had to adapt. Physical conferences have been supplanted by virtual ones, with virtual communications platforms providing the resources with which to connect remotely. Larsen believes these present an opportunity to materially change investor relations. "We'd already experimented with virtual investor roadshows and we were quickly able to adapt using these new tools for our investor meetings," he says. "I can see us doing a lot more work from our offices, or even from home, than in the past." He believes that these virtual conferences can, in some cases, "accommodate a better dialogue with shareholders" than their physical counterparts.

Fending off bids

While AstraZeneca can claim various victories in pharma and IR, these have not shielded the company against bids from other biopharma companies. In April 2014, after receiving an approach from Pfizer, the company managed to convince investors that it would generate more value for them on its own through transformation and accelerating late-stage pipelines.[11] In November that year, the IR team assembled a significant capital markets day for

Images: AstraZeneca

investors. "We did not have a lot of time to put it together, but it ended up being a brilliant countermeasure following the Pfizer bid," recalls Larsen. "It was the last leg of highlighting to investors the value that the company could deliver to them on its own."

Not only did the event succeed in convincing investors, it also became a catalyst for change and improvement following the rival bid. "Pfizer's approach was a blessing in disguise because it actually helped us to get the company in even better shape and focus people's minds," says Larsen. After that, AstraZeneca focused on returning to growth by accelerating scientific discoveries to extend the late-stage pipeline, including access to multiple technologies, to place itself at the heart of cancer medicine development. "These external forces are sometimes needed to look at things opportunistically, to grow, and to be even better at what we are good at, otherwise we may be consumed by other companies and lose our strategy and identity," adds Larsen.

Moving forward

With Covid-19 disruption prompting Larsen to think even more opportunistically about how to adapt, he reveals how the AstraZeneca IR team is using digital tools in its investor outreach. "We have cleaned up our customer relationship management system and organised it in a way that means we can more easily contact the buy side and interact with them," he says. "This has prompted us to reach out to investors directly."

> Trust arrives on foot, but leaves on horseback

Thomas Kudsk Larsen, Head of Investor Relations, AstraZeneca

The company's IR team is also intending to recalibrate in 2020, admits Larsen. "Since things are constantly changing, we are adapting in this environment and each day we are learning a little more," he says. "With countries opening up after lockdown at different paces we are doing more short-term planning than we used to."

Maintaining momentum is even more crucial in a world where business travel is largely suspended and video conferencing is replacing roadshows and face-to-face investor meetings. To this end, as AstraZeneca's ADR programme provider, Deutsche Bank Depositary Receipts has delivered alternative means by which AstraZeneca can engage investors.

Among these new facilities, Deutsche Bank's Depositary Receipts Virtual Investor Conference (dbVIC) provides a free opportunity for both small and major investors to listen to experienced investor relations professionals and senior management who are responsible for communicating a company's equity story to the investment community. They can also ask a company representative questions and gain valuable insights into a corporation and its industry. "Having introduced the dbVIC platform eight years ago, we were pioneering in the use of digitalisation to facilitate investor engagement," notes Daniel Clark, Global Head of Depositary Receipts at Deutsche Bank. "And in today's virtual world, with many parts of the globe in varying forms of lockdown, that platform has now really come into its own, with participation well above average levels for the last dbVIC event and positive feedback received from issuer clients who presented."

Maintaining relationships virtually, in addition to managing the sheer volume of stock market data since Covid-19 began to spread, are challenges that Larsen and his team have readily accepted. He reiterates the important role that trust plays in a people-centred innovation strategy that remains a key ingredient when it comes to engaging shareholders. "People need our medicines, sometimes even more than they did in the past, and that's our value proposition to the shareholders," concludes Larsen.

AstraZeneca's corporate history

April 1999	AstraZeneca is created through the merger of Astra AB of Sweden and Zeneca Group PLC of the UK
March 2013	The company undergoes major corporate restructuring, and construction commences on new US$1bn global headquarters in Cambridge, UK
April 2014	It rejects a bid from Pfizer
Q4 2018	Returns to revenue growth in the fourth quarter after years of decline from patent expiries
April 2020	AstraZeneca reports that it is working with GlaxoSmithKline and the University of Cambridge to develop a new laboratory capable of conducting 30,000 Covid-19 tests per day, and that it has an agreement with the University of Oxford to develop a candidate vaccine against Covid-19

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Data-driven planning

The use of data to contain the spread of the coronavirus has been well-documented. But it can also highlight disparate Covid-19 impacts and influence better planning decisions for recovery, as ANHD's Barika Williams tells *flow*

Non-profit developer and ANHD member Greenpoint Manufacturing and Design Center acquired and redeveloped this 85,000 sq ft industrial site in Ozone Park, Queens. The picture below left shows the building before it was redeveloped

New technologies giving access to massive data sets are playing a part in the reopening of pandemic-stricken economies and the management of social distancing policies. For example, the Deutsche Bank Research team uses geolocation, travel and financial data, among other data sets, to track close contacts of infected people in an effort to contain the spread of Covid-19.[1]

A report by the UK-based Commission for Equality in Mental Health used data to show that the severity of the impact of the pandemic depended on individual circumstances, with Covid-19 bringing social inequalities into sharp focus.[2] The Black Lives Matter (BLM) movement is highlighting racial disparities that span all aspects of society. BLM has catapulted diversity and inclusion to the top of corporates' list of environmental, social and governance priorities since the onset of the crisis.[3]

Given the societal impact of the pandemic, and the increasing focus on diversity and inclusion, the New York City-based Association for Neighborhood & Housing Development (ANHD) is employing a data-informed approach to address these inequalities.

This umbrella organisation of more than 80 non-profit affordable housing and economic development groups serves as the connector between its community development partners, including affordable housing developers, tenants' rights groups, economic development bodies and service providers. ANHD supports member associations with "grassroots organising" to build equity and justice in their neighbourhoods and city-wide.

Connecting community with data

Helped by its neighbourhood analyses and mapping, as well as its unique position as an umbrella body, early on in the pandemic ANHD was able to consider how Covid-19 was going to impact individual neighbourhoods in different ways. Deutsche Bank's Community Development Finance Group has supported ANHD's data work as part of its funder collaborative, and it was also an early supporter in the Association's Displacement Alert Project (DAP) Map tool, which was part of an initiative launched in 2016.[4]

Barika Williams, the Executive Director of ANHD, recalls that informal conversations with members on various issues and data points impacting neighbourhood housing helped guide the data indicators that ANHD used to qualify displacement risk. "The organisations needed a tool where we could harness data to see displacement coming and to be able to utilise that data as evidence that more resources should be directed towards a particular neighbourhood," she says.

Images: Tim Soter LLC, Frederick Charles, fcharles.com

Additionally, a US$35,000 grant from Deutsche Bank is enabling the Association to produce further educational resources, data visualisations and analyses of neighbourhood-level data to help show both the challenges of, and opportunities for, community development. The grant is also helping ANHD to convene and work with member groups and other community development practitioners, including allied housing and economic justice direct service providers, policy and legal services providers, other private sector funders, and city and state officials and agencies, with the goal of creating and preserving affordable housing.

Williams says: "During these times, some of the direct housing service providers, including government bodies, financial institutions and philanthropists, who are not necessarily rooted in neighbourhoods, are reaching out to ANHD because our connection with their members allows us to provide an understanding of housing trends in a variety of neighbourhoods across the city."

Data to improve planning

ANHD has leveraged its unique position across communities and its data-informed analysis to highlight inequalities in housing and the public benefits of development by non-profit, mission-driven developers.

3,000+

units of affordable housing to be created on New York City public land following an ANHD analysis of the public benefit of non-profit, mission-driven development

This research helped to convince city government officials to support the building of more than 3,000 housing units, by ANHD mission-driven developers, on New York City public land in the next few years.

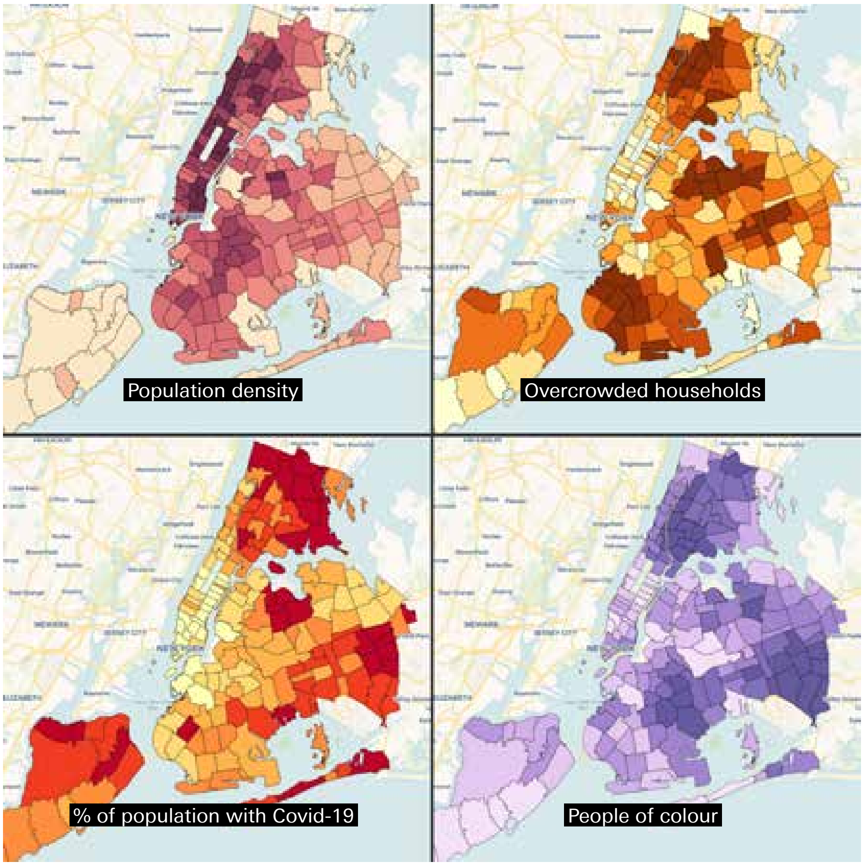
It was also the first coalition of community development groups to use data to map Covid-19 cases to specific neighbourhoods. An analysis of the data, released in a blog on the association's website in April 2020, showed how planning priorities contributed to disparate impacts of Covid-19.[5] A data map of the virus's spread and hospital closures showed that the majority of cases fell in lower-income communities. Citing research on Covid-19 deaths and ethnicity, the blog noted that "black and Latino workers are dying of Covid at twice the rate of white residents".[6]

ANHD combined neighbourhood-level data with data on concentrations of people of colour, where service workers live and where residents are forced to pay more in rent than they can afford. The Association used the analysis to call for city government officials to provide relief to renters and propose some immediate policy actions, including a moratorium on commercial and residential evictions.[7]

A separate neighbourhood-level analysis of Covid-19 cases in NYC revealed that density alone has little correlation with the impacts of the pandemic.[8] However, correlation with high rates of Covid-19 is apparent in overcrowded households, especially in communities of colour, "a metric that directly reflects the history of segregation and inequity in our city," the blog noted.

"Looking at the data, it became very clear in those early days of Covid that the issue was not density. In fact, the densest parts of the city are those with the lowest numbers of Covid cases, including predominantly white areas with higher rates of access to healthcare," says Williams. "The Covid cases are actually tied to overcrowding in communities of colour, where there are lots of people living in a small flat, for example."

Figure 1: ANHD's Covid-19 Impact and Analysis Maps



Source: ANHD

> Private-sector partners enable us to launch the needed initiatives and demonstrate the impact

Barika Williams, Executive Director, ANHD

Data sharing in action

The DAP Map tool has an interactive portal, allowing ANHD member organisations and partner organisations to enter information by neighbourhood and by various districts. This information can be specific incidences in an individual building or a block that need resources, or trends occurring consistently within neighbourhoods, which organisers can use to intervene.

For example, an ANHD group member in the Bronx has been using the tool to gather the data evidence to show that a building's residents are not being provided with essential services. The DAP project pulls data from numerous sources, including from constituent services and residents' complaints, and brings those systems of information together as a case to address the issues as required.

Since New York State extended its temporary eviction moratorium to October 2020, ANHD is able to use the data to see where new filings to evict tenants are coming from and how (together with tenants' rights groups, economic development bodies and legal services providers) it could be in the best position to respond.[9]

Data in the tool is customised, integrated and adjusted as needed. "It enables us to seamlessly generate interactive maps from new and old data, including time-lapses of past and present events, to influence future planning," says Williams. She explains that back-end coding creates interfacing frameworks that allow ANHD to upload new datasets and information data points onto the portal, to inform the analysis that is generated by the tool. "This brings value for both community organisations and elected officials, because it provides the critical information to convince city-and state-level officials to support and fund housing protections and understand potential threats to affordable housing in their districts."

Affecting future planning

Using the data, ANHD is equipped to drive awareness of how land use decisions taken by urban planning agencies and infrastructures, which approach these decisions in a particular way, have extensive consequences.

"We're in constant conversation with non-profit organisations that work around planning and land use and have been pushing for a more comprehensive approach to planning," says Williams. "So we're in a unique position to look at data and assess what is missing in a neighbourhood, and what we can more intentionally plan for."

For example, a planning programme in NYC incentivises changes to the zoning code that create grocery stores in areas without access to fresh food. Another initiative ANHD has worked on with partners, including Deutsche Bank, supports industrial and manufacturing businesses that create jobs and provide critical direct services and materials.

Connecting the community

As a community connector, ANHD leverages its reach to tap into membership organisations representing communities from different ethnic backgrounds and to engage officials. For example, NYC Government representatives approached ANHD and its small business coalition – United for Small Business NYC – to engage a wider segment of small businesses, including manufacturers, street vendors and mobile food carts, to help connect with this community that is not reached by traditional business associations or chambers of commerce.

In another event, in December 2019, ANHD joined forces with the Urban Manufacturing Alliance – a national coalition that aims to develop manufacturing economies fit for the 21st century – to host a two-day workshop with sponsors including Deutsche Bank. This aimed to help community development stakeholders gain the resources and knowledge they need to create more space for urban manufacturers.

"At ANHD we want to work with sponsors with whom we share a belief in the value, goals and intentions of community development and investing in marginalised communities. With partners like Deutsche Bank, we can move forward with investments and programmes that are a proof of concept for governments to understand why equity-focused inclusive growth is something they should invest in," says Williams. "Private-sector partners enable us to launch the needed initiatives and demonstrate the impact. We are then in a position to engage government officials, providing them with the evidence for future projects with the backing of ANHD, our members, and the support of a private-sector partner that is invested in the goals of the project."

Since Covid-19, with the help of ANHD, the NYC government has turned to many small manufacturing businesses to deliver personal protective equipment and various other products that are unavailable from the traditional international supply chains.

"It's been an interesting conversation with government officials, who are now rethinking this sector's involvement in the recovery," says Williams. "As part of ANHD's industrial work, we partnered with the Urban Manufacturing Alliance to create an industrial development toolkit through which the City should put finance, planning and land solutions in place."

Key facts: Association for Neighborhood & Housing Development

- An umbrella non-profit member group founded by eight of the earliest local affordable housing development groups in New York City in 1974
- Works across city neighbourhoods to ensure the development and preservation of affordable housing
- Supports and collaborates with 80+ non-profit members on housing, economic development and targeted community services for low-income residents
- Offered training to 568 housing and economic justice practitioners in 2019, helping staff from local community organisations
- Its research and analysis on the public benefit of mission-driven developers has led to the apportionment of 3,000+ units of affordable housing to be created by ANHD members on city public land in the next few years
- Published 47 resources on its resource library in 2019,[10] including data and analysis visualisations. These expanded the information, scope of research and analysis available on affordable housing and equitable economic development

Connecting virtually

Since lockdown, ANHD has convened its members virtually to provide holistic recommendations to communities in need. "We've used digital tools to talk to our members, financial institutions, governments and leading researchers," says Williams. "Using these virtual platforms, organisations are able to bring their communities – including their community leaders, who are working with their neighbours or other small businesses – into dialogue."

Virtual platforms have also given ANHD an opportunity to host conversations with small non-profit entities, members and partners, and with similar organisations globally, to share best practices on using data more effectively in neighbourhood planning. It is re-envisioning its annual forum – which is usually held in person – as a digital panel series to advance its community dialogue with local and international bodies.

"If there's someone in London or New Delhi, for example, who has already tackled a housing issue, we want to be able to have those conversations with them, rather than seeing everything through the lens of NYC," says Williams. "Moving to a more digitally connected environment has afforded us the opportunity to have those global conversations."

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Matters of the mind

Covid-19 has inflicted the greatest change upon the global population since World War II and highlighted the importance of both physical and mental wellbeing. Michael Morley tells *flow* how a trauma-informed approach to employee wellness could play a meaningful role in a sustainable recovery

In May 2020, researchers at Cardiff University in Wales announced a novel method for treating post-traumatic stress disorder (PTSD). In their trial, a patient walks on a treadmill while interacting with a series of self-selected images that are displayed on a large screen. The idea behind this is that any negative thoughts, feelings and behaviours are the result of unprocessed memories and are manifested through involuntary rapid eye movements.

By focusing on those spontaneous associations with traumatic images, thoughts and emotions, while controlling the patient's side-to-side eye movements, the researchers found that the intensity of those thoughts and emotions reduces.[1] The findings, based on trials featuring British military veterans suffering from PTSD, revealed a 37% average reduction of symptoms after receipt of the therapy.[2]

More than 7% of ex-military personnel suffer from PTSD (for those who have been deployed in a combat role, the figure stands at more than 17%), compared with 4.4% of the civilian population.[3] Forces in Mind Trust (FiMT), the charity that helps ex-armed forces personnel transition back to civilian life after service, hopes the research will help those affected by PTSD. FiMT notes that engaging veterans in mental health treatment programmes can be challenging due to stigma, the perceived weakness in acknowledging emotional difficulties, and macho military cultures.[4]

Images: iStock

This observation has wider implications for society given that one in four people have suffered from a mental health problem at some stage, yet only a limited number seek professional help.[5] Mental health – defined by the World Health Organization as "a state of wellbeing in which every individual realises his or her own potential, can cope with the normal stresses of life, can work productively and fruitfully, and is able to make a contribution to her or his community" – is a topic that Michael Morley, Deputy Chair of the UK's Centre for Mental Health, is passionate about.

> Every manager of people should have a sound understanding of mental health issues and how to provide relevant support

Christoph Woermann, Chief Marketing Officer, Deutsche Bank Corporate Bank

Leveraging his FiMT experience, where he served as Trustee and Director, he is now driving efforts to promote mental health and wellbeing more broadly, alongside his responsibilities as CEO of Deutsche Bank UK Ltd and Head of UK Wealth Management.

Morley's passion has personal roots, given that his son was diagnosed with attention deficit hyperactivity disorder (ADHD) four years ago.[6] Two years later, he joined the board of trustees at the Centre for Mental Health, a UK government-funded independent charity that focuses on fostering a better understanding of and dialogue on issues relating to mental health. His son's ADHD was not something he and his family previously talked about, but Morley explains that "by having access to the research, I could cultivate an understanding so that I could help him and others with mental health issues."

Awareness gains ground

Mental health and wellbeing have received increasing attention across a wide range of societal sectors in the past few years. Although Cardiff University's recent research centres on the armed forces, it is congruous with the first wave of the Covid-19 pandemic, a once-in-a-lifetime global issue that has exposed many to trauma on an unprecedented scale. This has triggered stresses and emotional responses that are manifest in both mental and physical ways.

In July, research by the Centre for Mental Health highlighted how the severity of the impact depended on individual circumstances.[7] It found that those suffering the most are least likely to be supported by mental health services because the help on offer is either difficult to access, irrelevant, unhelpful or coercive. The study concluded that equal access to mental health support must be at the heart of the global recovery from the pandemic.

Commenting on the findings, Centre for Mental Health CEO Sarah Hughes said: "Covid-19 has brought health inequalities into sharp focus. The tragic losses of life that have devastated families and communities will be followed by a significant rise in mental ill health. We must make sure that those who have experienced the biggest inequalities and injustices get access to the right help at the right time."[8]

Workplace wellbeing

Analysis from the Deutsche Bank Research team in July 2020 explored the issue of employee wellbeing, which has risen to the top of the corporate agenda since lockdown measures kept many confined to their homes.[9] While corporate culture quickly adapted, with the help of virtual communications tools to connect employees, the arrival of virtual collectivism meant that any individual problem might not be obvious and could go unnoticed.

As a career banker, Morley is mindful of this challenge. He relates the Cardiff University research, which was supported by FiMT research, to the transition facing employees who have had to suddenly adapt to changed circumstances and may be experiencing mental health issues as a result. "In a significantly changed paradigm, seeking help might be seen as a weakness, and invitations or resources to do so may be far less obvious," he says.

Morley is active in promoting awareness of mental health at Deutsche Bank and champions a safe environment in which people can talk about any issue impacting their wellbeing. He sponsors dbEnable, an internal initiative that aims to provide an inclusive and supportive workplace for people with episodic or long-term physical disability, people with a mental health lived experience, or those who simply want to foster wellbeing and understand neurodiversity.[10]

One of the pillars of this initiative is a programme by Mental Health First Aid (MHFA) England, a social enterprise

The Hospice UK team and supporters

Deutsche Bank Mental Health First Aiders raise awareness of mental health issues and provide relevant support

offering expert guidance and training to support mental health in communities across the country. The Mental Health First Aiders programme offers training for employees to teach them how to spot colleagues who may be suffering with mental health issues, and it explores solutions for providing the appropriate help. "It's designed to provide a safe, empathetic environment for people who have a mental health experience to talk about it," says Morley.

Efforts have ramped up since the spread of the coronavirus. Since lockdown began in the UK in March, 24 Deutsche Bank employees have been inducted as Mental Health First Aiders, and they are available by phone, email, Skype and Symphony to act as a first port of call to anyone in need of support. Morley believes the lessons learned from this initiative should inform a return to the 'new normal' as employees return to a workplace with new social distancing measures in place. "Since we went into lockdown, it has been very instructive to see how research organisations and charities have adapted to the wider work from home issue and understand how they are thinking through the issues that are going to be experienced by people who have a mental health issue," he says.

As one of the 2020 Mental Health First Aiders inductees, Christoph Woermann, Deutsche Bank Corporate Bank's Chief Marketing Officer, reflects on his personal experience during working from home and shares the key ingredients of a continuing support system for employees as they return to the workplace: "In times of intensified stress for individuals and teams during Covid-19, there is no such thing as over-communicating. We switched our weekly global team call to daily catch-ups, and supplemented these with non-work-related social messaging groups to stay connected. The experience of the digital community has helped in addressing individual challenges. Going forward, it is my dream that every manager of people should have a sound understanding of mental health issues and how to provide relevant support."

Returning to the workplace

MHFA England is extending the remit of the Mental Health First Aiders initiative from helping those with a mental health lived experience to include wellbeing (physical, mental and social), as more people emerge from lockdown and return to work. This means changes including new protocols for entering the office, travelling on public transport, social distancing and wearing face masks. "I think there will be a whole range of anxieties and concerns, since everyone is going to have to step back into a workplace that has fundamentally changed," notes Morley. "The bank has an important role to play in making an appropriate and supportive environment available for all groups."

Working with HR teams and dbEnable, the Mental Health First Aiders have set up an initiative to encourage employees to initiate a conversation about any aspect of wellbeing resulting from a potential return to the workplace. "Covid-19 changes every aspect of life as we knew it before, and from a mental health point of view, the latest research from the Centre for Mental Health suggests that we have been through a global trauma," says Morley. "We are introducing a trauma-informed approach by creating a sense of psychological safety for those who are used to being surrounded by people in the office, as well as physiological safety, as they return to the work environment, to try and address what will be a very difficult situation for everyone."

> "An understanding that each one of us has a unique psychological profile should form the basis of any return to the workplace

Michael Morley, Deputy Chair of the Centre for Mental Health and CEO of Deutsche Bank UK Limited

Key to this support is neurodiversity. "An understanding that each one of us has a unique psychological profile should form the basis of any return to the workplace," says Morley. "There's still a huge amount of work to be done by clinicians to understand how people think and who they are in the workplace. A lot has changed, and everyone has had to adapt."

dbEnable has created a steering group to champion best practice in all areas, including long-term physical disability, mental health and the experience of wellbeing in neurodiversity. This will include a series of thought-leadership activities and events, with the aim of creating an inclusive and supportive workplace for the long term.

Another initiative is Deutsche Bank's UK corporate social responsibility Charity of the Year programme, which helps pioneering charities unlock further value through building organisational capacity and access to in-house resources and expertise that advance their causes.

Throughout 2020–2021, Deutsche Bank is partnering with Hospice UK, the national charity for hospice and palliative care, to promote positive mental wellbeing. The charity provides online resources to change the way society addresses death and bereavement, a matter that has come more into focus since the pandemic, according to Jenni Hammond, Deutsche Bank's Partnership Manager at Hospice UK.

Hospice UK and Deutsche Bank launched an internal campaign in May designed to promote the resources and support the charity offers to the bank's employees and their families. An employee wellbeing hub has resources on a range of topics, from advice on how to talk to and support employees who have experienced a bereavement, or who have a family member who is ill (including do's and don'ts), to a webinar sharing more tips and guidance.

In a personal message on the wellbeing hub, Tracey Bleakley, CEO of Hospice UK, revealed that (alongside other charities) it has also started a bereavement and trauma line for key workers, to help people talk with their families about the sensitive subject of death and dying. "It's about reaching out to professionals to say it's ok to be upset and it isn't part of your job to know how to deal with this, so we are supporting them with a variety of online resources," she added.

The charity is also implementing a workplace programme called Compassionate Employers. The initiative will help equip employees with the skills they need to support their colleagues who may be suffering or may have a family member who is suffering. Through the programme, Hospice UK works closely with companies to understand how they can better support their employees, says Hammond.

"We look at what support is in place already – for example, Mental Health First Aiders – and work with the company to offer more support for those who are experiencing bereavement, caring, or who have a terminal illness," she adds. "We are on an exciting journey with Deutsche Bank, having completed the initial assessment and recommendation session to deliver an introductory Compassionate Employers workshop in the autumn of 2020."

Fostering further understanding

Another key element to a workplace return is resources for employees with different backgrounds. Organisations are starting to get better at understanding this, says Morley, and at providing an environment where people feel they can bring the best of themselves to work.

The pandemic has accelerated awareness of diversity, as different groups in society have been more affected than others. Compounding this issue are factors such as people from high-risk backgrounds, who are exposed to violence and abuse at home, or those who may have long-term health complications and existing mental health conditions. "There is no doubt that it's the employer's responsibility to provide a safe environment where people who are in those high-risk groups feel they have a supportive organisation, where they can at least talk about those things that they may be facing," says Morley.

Many companies have also assessed the economic impact of supporting employees with these challenges to their organisation and the implications for society as a whole. Morley cites the Black Lives Matter movement as an important example of a company's responsibility to society, as it highlights poverty during the pandemic. Diversity and inclusion has become one of the top five environmental, social and governance measures for corporates since the onset of the crisis, notes Deutsche Bank Research.[11]

"We are asking ourselves challenging questions about whether we are doing enough, starting with an honest, open discussion," says Morley, who adds: "We're getting better at understanding all of these issues and what may trigger a mental health lived experience. Our approach of nurturing that understanding through the employee resource groups is a good start in helping people feel supported."

Hospice UK resources

- Supporting you through conversations about bereavement – *https://bit.ly/2DPeQqQ*
- Supporting you through talking to children about dying – *https://bit.ly/2CiIlQI*
- Supporting you to be a good listener – *https://bit.ly/2DMBFeO*
- Supporting you through thinking about your wishes and planning – *https://bit.ly/2DwFODU*
- Supporting you to care for a loved one – *https://bit.ly/3fHxHB9*

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[6] ADHD is a condition that includes symptoms such as inattentiveness, hyperactivity and impulsiveness. All of these affect mood, thinking and behaviour
[7] See https://bit.ly/2Dtlq5u at centreformental health.org.uk
[8] See endnote 7
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SCT Inst: the story so far

The European Payments Council's Chair Javier Santamaría reviews the progress of a scheme that marks a major advance for European payments

Launched by the European Payments Council (EPC) in November 2017, the Single Euro Payments Area (SEPA) Instant Credit Transfer (SCT Inst) is an instant payments scheme enabling euro credit transfers within the SEPA area to be made in under 10 seconds. SCT Inst works like a regular SEPA credit transfer but much faster, and is open and accessible to users and service providers 24/7.

An open-ended list of SCT Inst use cases demonstrates situations where instant payments could bring additional benefits to payers and payees – for example, buying goods from another person; purchases from online stores; and insurance claims payments. Almost three years on, the scheme has grown significantly, and the EPC would like to highlight progress since the launch, its benefits, the remaining challenges, and further goals.

Current status of SCT Inst

The SCT Inst scheme has grown steadily: the latest register of participants, published in September 2020, reveals that it includes 2,254 payment service providers (PSPs) from 22 countries in Europe – or 56% of total SCT participants and almost two-thirds of PSPs in the euro area. The EPC is confident these numbers will continue to grow.

In addition, the volume of SCT Inst transactions in Q2 2020 covered about 6.5% of the total volume of SCT and SCT Inst transactions in SEPA, having grown steadily quarter-by-quarter since Q1 2019, when the figure was just 1.02%. Over 99% of transactions are completed in under five seconds and, to date, no significant fraud issue has been reported.

SCT Inst benefits

Instant payments are the closest substitute to cash, with the potential to develop in the person-to-person and person-to-business segments in situations where cash and cheques are widely used. They may reduce the cost of managing both, which are the most expensive means of payment at the level of the entire economy.

SCT Inst offers many benefits to all payment stakeholders, be they end-users or service providers. These include:

- Its real-time nature: the scheme allows the electronic transfer of money across Europe in less than 10 seconds;
- Its permanent availability: any time and on any day of the year, including weekends and holidays;
- Its targeted pan-European reach (progressively the full set of 36 SEPA countries); and
- The multitude of use cases it supports: individuals, businesses and government entities all use the SCT Inst scheme.

> "SCT Inst is open to users and service providers 24/7

Challenges

To join the SCT Inst scheme PSPs must adapt their IT systems to make them real-time and available 24/7, as well as establish back-up arrangements; upgrade their operational and risk management processes such as fraud detection and their clearing and settlement arrangements; and develop and promote this new service to their customers. The desire for speed, convenience and security are the most crucial factors in the success of new technologies or methods. However, consumers will only adopt new payment methods when they perceive them to be superior to those they already use. A seamless and user-friendly experience is critical in this regard. The SCT Inst scheme, and innovative solutions based on it, can help European PSPs respond to their customers' evolving payment needs.

What's next?

Finally, the SCT Inst scheme still needs to keep evolving to meet market demand. New features already implemented include a repayment functionality (added in November 2019), while the maximum amount per SCT Inst transaction recently increased to €100,000, which helps to facilitate business-to-business transactions. More features will be developed in line with the EPC's scheme management process, which involves interested stakeholders, closely following market needs. It is worth highlighting the EPC's ongoing development in partnership with stakeholders of a request to pay scheme, for which a first rulebook is scheduled for a November 2020 release.

The EPC remains at the forefront of modernising European retail payments. The SCT Inst scheme – coupled with other initiatives that augment the potential of real-time payments – will make payments more convenient and efficient for consumers, merchants, companies, public administrations and PSPs, and ultimately enhance the competitiveness of the European economy. These achievements would not be possible without the active contributions of PSPs and other stakeholders.

Javier Santamaría has been Chair of the European Payments Council since 2012

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