Innovation in Treasury Management

As a key strategic partner to the business, today’s Treasurers can greatly benefit from the use of digital tools and automation to drive better cash and risk management processes and insights.

The role of the Treasurer is evolving to become far more strategic in nature over recent years. The most recent Business of Treasury reports from the Association of Corporate Treasurers (ACT)¹ found that 87% of Treasurers have a strategic position in their organisation, while 42% are actively working with colleagues to define the business wide strategy.

At the same time, there is pressure on Treasurers to ‘do more with less’ and to manage strategic risk flowing from the evolution of business models including the rapid growth in ecommerce and online channels together with the emergence of a data driven, more automated and ‘real-time’ treasury. In the 2019 Association for Financial Professionals (AFP) Risk Survey,² the majority of Treasurers (60%) reported strategic risks as their biggest concern in all treasury risk management disciplines.

The key to treasury excelling in this strategic role and supporting the business in the digital and real-time age is having easy access to the tools and insights that support these needs. Advancements in technology and processing offer the tools for Treasurers to manage their cash and risk responsibilities in faster, better and simpler
ways. Banking partners can offer agile solutions to simplify processes and provide the visibility and insights required to power strategic decision making.

**Enhancing risk management**

Treasury management has always had risk management at its core, and there is even more focus on this important area now that treasury is becoming more of a strategic partner to the business. Company-wide decisions on where to set-up operations or grow an existing presence increasingly hinges on the insights provided by treasury.

As a bank, we know that Treasurers are faced with this expectation from senior management and the board for timely and actionable insights. As such, we have developed models and solutions that enable Treasurers to forecast and execute their risk management strategies in a fast and flexible manner.

**Long-term FX forecasting example**

Having access to the right data provides insights for informed decision making. For instance, accurate long-term FX forecasting which gives a 5-10 year view on a market can assist a company with ambitions to enter new markets as returns are often only earned over prolonged periods. The value of an investment made in a market over time therefore has a big impact on the return earned. If the value of an investment halves in value over time, for example, the return on investment may simply be insufficient to cover this loss.

As companies plan longer term budgets, growth projections and investment strategies for new markets, an accurate set of long-term FX forecasts allow treasury to flag issues to the business and enable smarter decisions around hedging and investment policies. Standard Chartered uses a quantitative approach for long-term FX forecasts of up to 10 years, and we use this approach because it considers variables better suited to measuring long-term economic performance. We use a fair value model as a base, with variables including real GDP growth differentials, real wealth per capita, government consumption and more.

This model highlights misvaluation in any currency pairs over the long-term, based on fundamentals such as Standard Chartered forecasts for real GDP growth differentials, real wealth per capita, and relative inflation rates. Growth and wealth are impacted by key productivity drivers that include capital investment and degree of capital intensity, development of the middle class, urbanisation and the degree of population aging. Forecasting on growth and wealth alone is not enough however, as the impact of inflation is keenly felt in longer-term forecasts.

Taking India as an example, all four core productivity drivers are on the rise and in combination this leads to expectations for the country’s real exchange rate to increase over time, but when factoring in India’s high inflation outlook (significantly higher than that of the US), the currency is expected to depreciate on a net basis over time.

The Standard Chartered model for long term FX forecasting assigns coefficients to these variables. This allows companies to make informed investment decisions and risk manage appropriately. For example, strong productivity growth over the next decade should encourage investment in India, although some protection against the impact of higher inflation, such as long term cost management, FX risk management against a depreciating currency should also be considered.

Accurate forecasts can assist corporates on long-term hedging decisions and identifying the countries to invest in or avoid. Extensive backtesting of the Standard Chartered model shows it delivers a higher level of accuracy than analyst forecasts for the same period with the same data. Any corporate with its own forecast numbers can apply these to the model for analysis.
Algorithmic FX trading example
When it comes to risk trading, FX algorithmic execution (algo execution for short) is increasingly popular with corporates. This offers enhanced execution of the treasury risk management policy, particularly for very large FX payments such as a dividend hedge or an M&A transaction. With access to a variety of different liquidity pools in the market, including non-disclosed pools and Standard Chartered’s own internal matching engine, algorithmic execution enables a large transaction to be broken into many smaller slices and executed in a way that ensures market discretion, reduced market impact and minimises negative cost pressures from excessive currency demand.

The way that corporates access an algo for FX trading is changing, led by platforms like Bloomberg, FXall and 360T. Standard Chartered supports these various platforms and provides ready access to eight different algo strategies, including TWAP (Time-Weighted Average Price) and VWAP (Volume-Weighted Average Price). Trading is set for a specific time period with these algos, and VWAP’s additional functionality also offers visibility of the trade volumes and will dynamically adjust its trading schedule according to market liquidity.

From an audit perspective, corporates can demonstrate the trade is a fair reflection of the market at the time, as algos offer full transparency over the execution process, listing and benchmarking every single trade that has been carried out. For more bespoke requirements, Standard Chartered’s quantitative researchers can customise algos for clients’ specific trading objectives.

Driving Treasury innovation and efficiency
As the pace of business increases and e-commerce and online models are adopted by businesses across many industries and geographies, Treasurers increasingly face real-time demands on cash and payments management. Treasurers need to access liquidity faster and more efficiently with full visibility of their cash and liquidity positions. The growth in cross-border commerce and coverage of markets is also driving Treasurers to look for ways to execute cross-border transactions more easily.

Our knowledge of technologies such as APIs and robotics, combined with a detailed understanding of our customers’ businesses, has enabled Standard Chartered to working closely with clients to design innovative solutions that equip Treasurers for a more real-time world.

Real-time liquidity monitoring example
Real-time monitoring of large balance movements is important to many Treasurers. However, the constraints of traditional MT940 bank statements, which are typically delivered on a daily basis to Treasurers, is a real roadblock. As a result, many Treasurers are forced to log on to multiple proprietary internet banking platforms to see their positions.

As an alternative, Standard Chartered has developed a solution that provides instant payment and debit status notifications via API to the treasury management systems (TMS) or accounts receivable (AR) systems. The real-time rich payment notification via API includes full details of the transaction instantly.

From an AR perspective, the solution enables real-time application of amounts collected to outstanding receivables. This enables credit lines to be freed up and more goods to be shipped out faster. This reduces cycle times, speeds up the cash conversion cycles and drives higher sales, all leading to improved working capital while reducing exposure to credit risk.

For corporate Treasurers, real-time account monitoring offers the chance to invest large account balances more regularly or quickly adjust to shortfalls without incurring an overdraft.
Real-time liquidity management example
With the increasing adoption of real-time business models, Treasurers need to both see and manage their liquidity positions across all their banks at any time. To address this need, Standard Chartered has developed a multi-bank direct debit cash concentration capability.

This was initially developed for a client in Malaysia to automate cash concentration and to use a single electronic banking platform across multiple banks. The client’s accounts with these banks were linked to the main concentration account at Standard Chartered, and Direct Debit instructions were used to ‘pull’ cash to the central account. With Direct Debit mandates, banks have to respond under the scheme rules governing a clearing system to these requests, compared to a sweep instruction based on a SWIFT MT101 message that may not be as fast, reliable or transparent.

As Direct Debit schemes around the world are becoming increasingly real-time, this solution has shown the potential to provide Treasurers with real-time sweeping on a 24/7 basis. Versions of this solution are already live in some Asian and African markets. We believe the advent of the PSD2 open banking rules in Europe in late 2019 will enable the development of API driven real-time sweeping structures to be developed. Standard Chartered is already working on these solutions.

Digitised documentation example
Several years ago Standard Chartered surveyed large multinational clients on their key pain points. Documentation, particularly relating to applying for approval and settling FX for exports and imports, was highlighted as one of their key challenges. It was noted that sometimes this process took twice as long to complete as the actual shipment of goods.

In response to this client insight, the bank developed FlowBanker, an end-to-end workflow solution that harnesses both our online Trade and FX platforms to streamline and enhance the client experience. Using robotics in the background to read documentation, the platform’s automation can rapidly speed up the verification process relating to import and export documents, from two weeks to a few hours in some cases.

The audit trail functionality of FlowBanker is essential, enabling corporates to track invoices and create easily stored documentation that can be retrieved whenever required. The end to end nature of the platform means that it supports corporates throughout the entire lifecycle of a transaction. The solution is already live in India, China, Indonesia, Malaysia and Thailand.

Demonstrating added value
As Treasurers take on a more strategic role, and with businesses rapidly evolving in response to market demands, Treasurers need to work smarter and faster. Working with a partner bank can play a key role in enabling Treasurers to tackle challenges by automating processes, speeding up access to information, and enabling the Treasurer to operate in ‘real-time’ mode.