

# Challenges and Role Transformation of the Corporate Treasurer in a Risk Driven World

*“To improve is to change; to be perfect is to change often”*

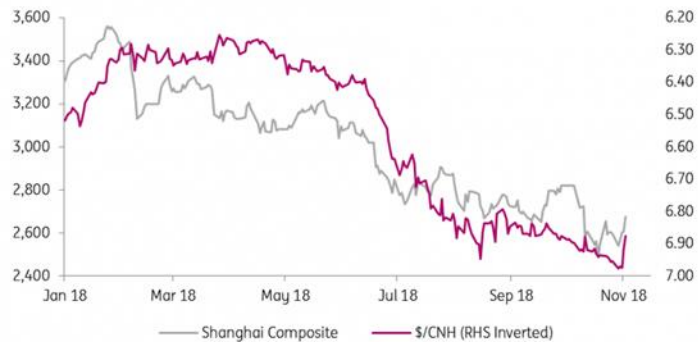
Winston Churchill



# How the world looked in 2018.... as 2019 knocked on the door



**A trade deal by the end of November?**



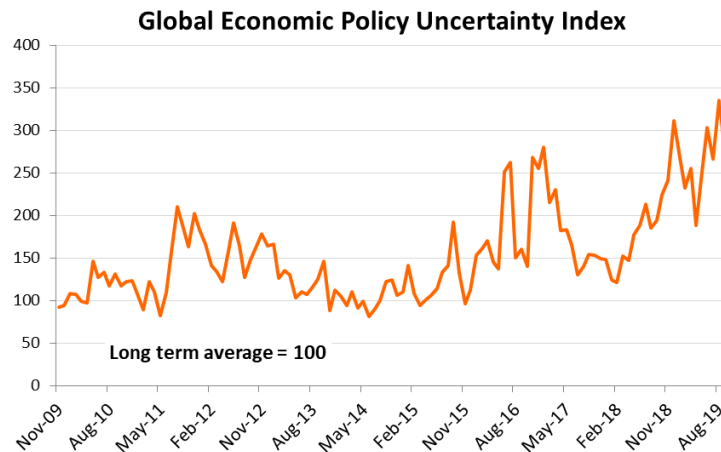
## Uncertainties hit trade-intensive nations... as the months went by ... in 2019



Investors top fears are....

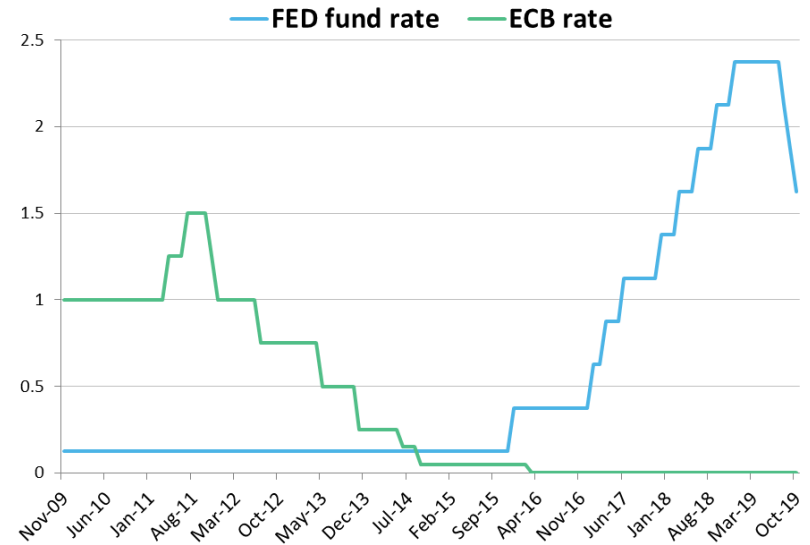
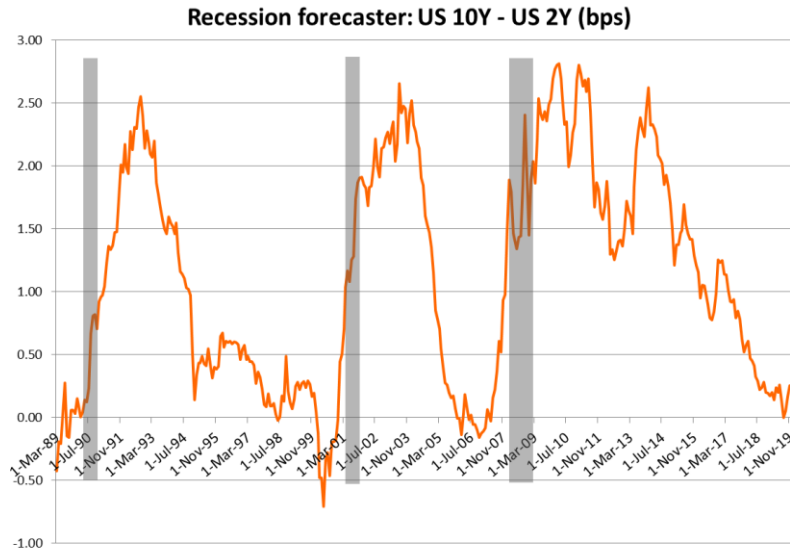
- Trade wars
- Monetary policy impotence
- China slow-down
- Bond market bubble
- European politics

Trade is one of the defining economic topics of our time, with growing tensions between the US, China and the rest of the world.



## Markets under the “Clash of Titans” pressure

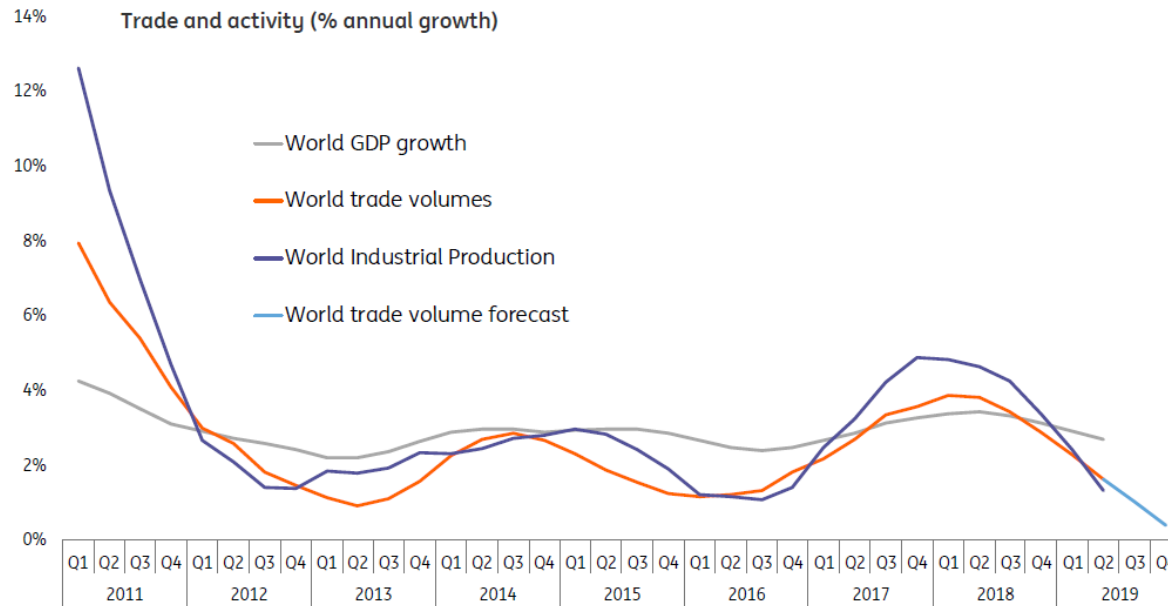
### US treasuries spread



Market risks pushed upwards by divergent monetary policies

## Trade wars: trade and production softens

After the synchronized global recovery that lifted world trade through 2017, Washington's protectionism since 2018 has hit world trade and industrial production



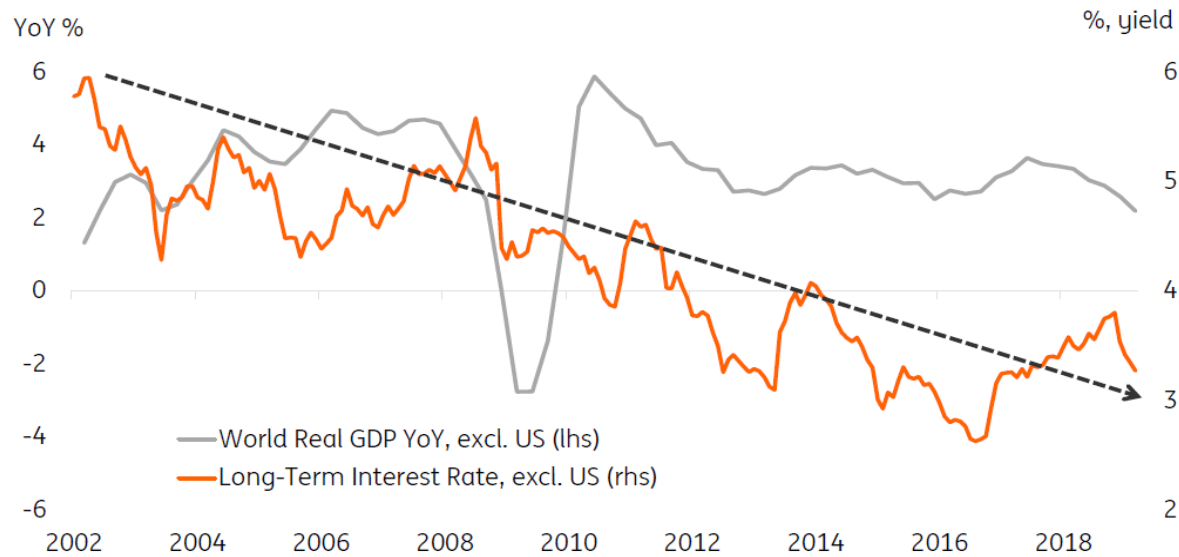
~ 40% of investors assess that  
“US-China trade war is the new  
normal and won’t be resolved”

Source: Bloomberg, ING



## Monetary policy helplessness...

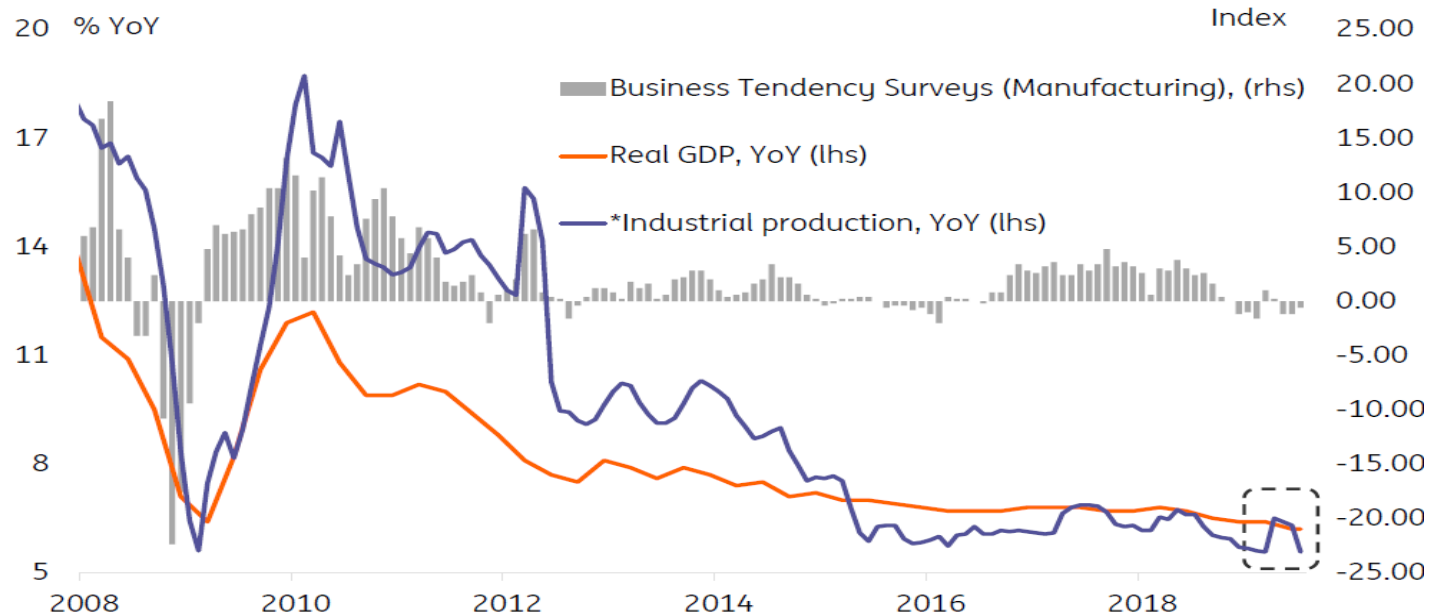
Concern that lowering interest rates doesn't deliver the expected result that it used to...



Notes: long-term interest rates of generally 5-10 year maturities, percent per annum.  
Source: Dallas FED, Macrobond

## China slows-down

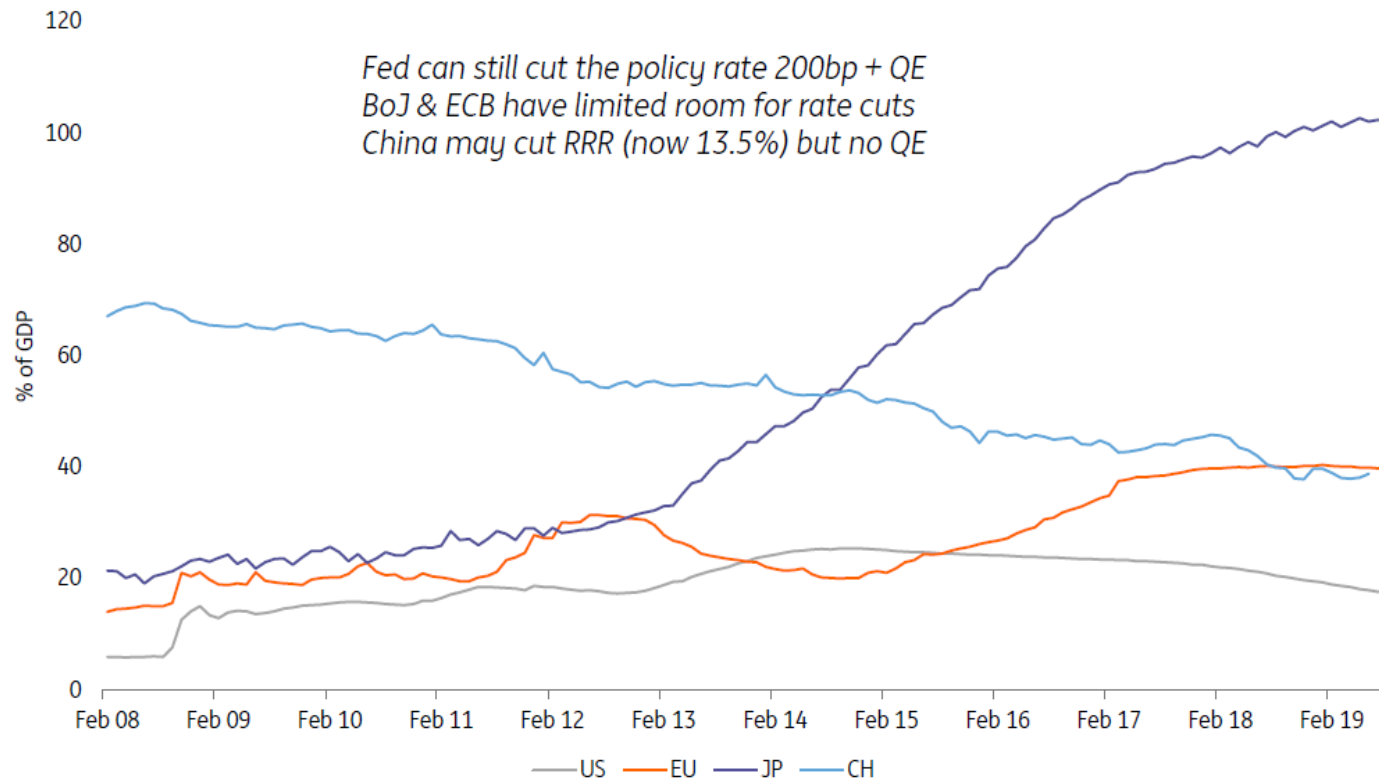
The trade war has accelerated the deterioration of a downward economic cycle in China, especially on consumption. 5G should be the new growth engine in 2020



Source: OECD, China National Bureau Statistics, Macrobond  
\* 3-month moving average

## Monetary stimulus – some have more room

### Central bank balance sheets (% of GDP)

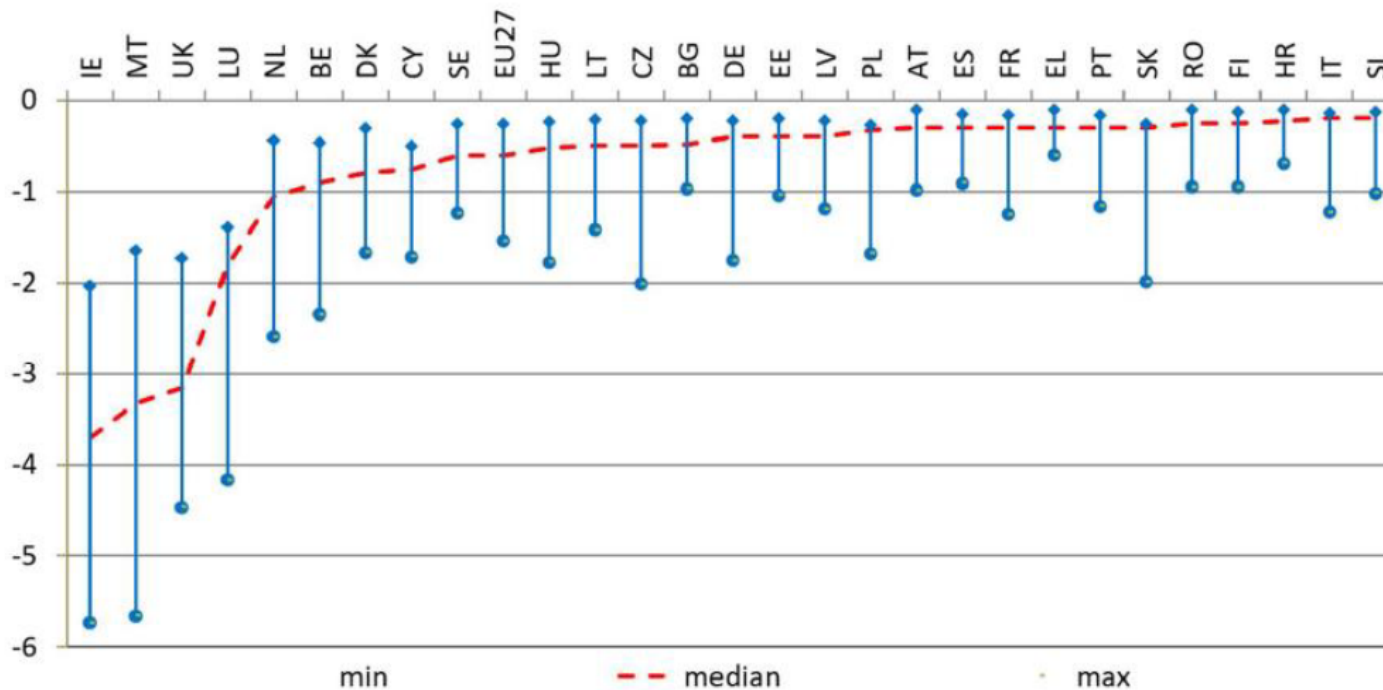


Source: Bloomberg, ING



## Brexit: Potential GDP impact of No Deal Brexit

% GDP deviation after a Hard Brexit (versus remaining in EU)



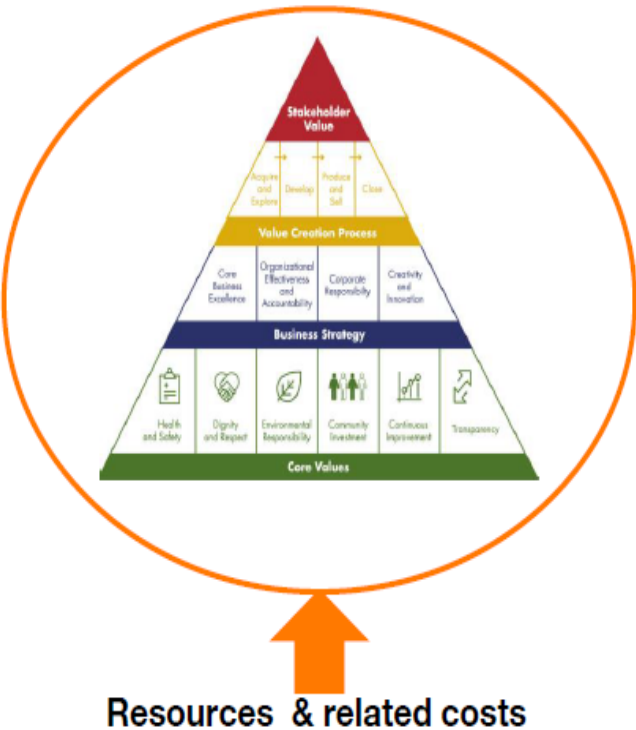
Source: NBB, based on several studies

## Future challenges in a nutshell

- TRADE WAR – worse before better
  - US – monetary stimulus available, Nov 2020 elections key
  - CHINA - playing the long game – fiscal stimulus in play
  - EUROPE – remains weakest link, export model questioned
  - DOLLAR - could stay strong, unless trade or Fed story shift
  - BOND YIELDS – staying low, more debt held by central banks
  - CREDIT SPREADS - could stay tighter than business cycle suggests
-

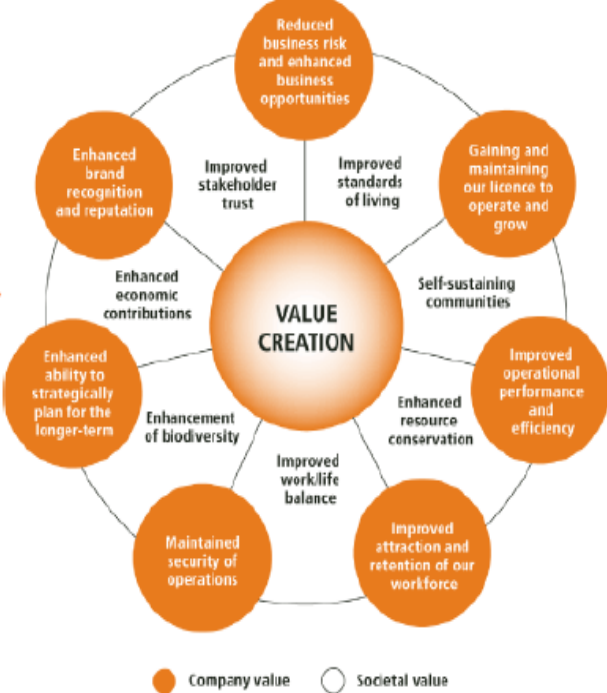
# A Value Creation Paradigm Shift

Focus on sustainable delivery of value to complement the resources (capital ) costs

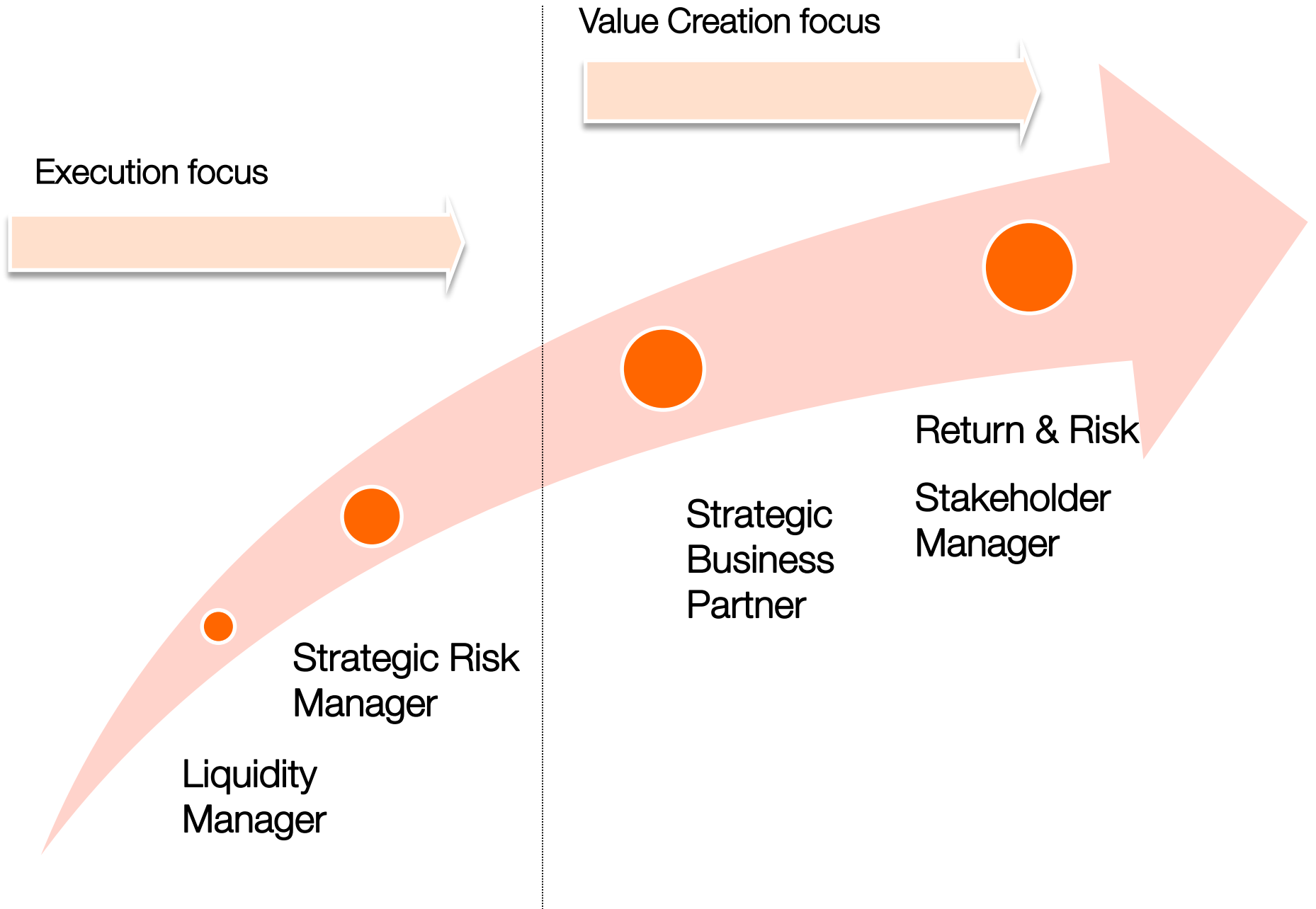


To drive  
**Sustainable**  
**EBITDA**  
**Cash Flow**  
**ROCE**  
**NOA**  
**EVA**

Value creation in a systemic approach



# Treasurer's Role Evolution



# Liquidity manager



- Re-engineering finance processes to unlock liquidity and shorten working capital cycle
- Optimizing safety and Return on surplus liquidity
- Optimizing cost of borrowing and working capital
- Ensuring availability of liquidity across the entity/entities

The long road the value creation through uncertainty



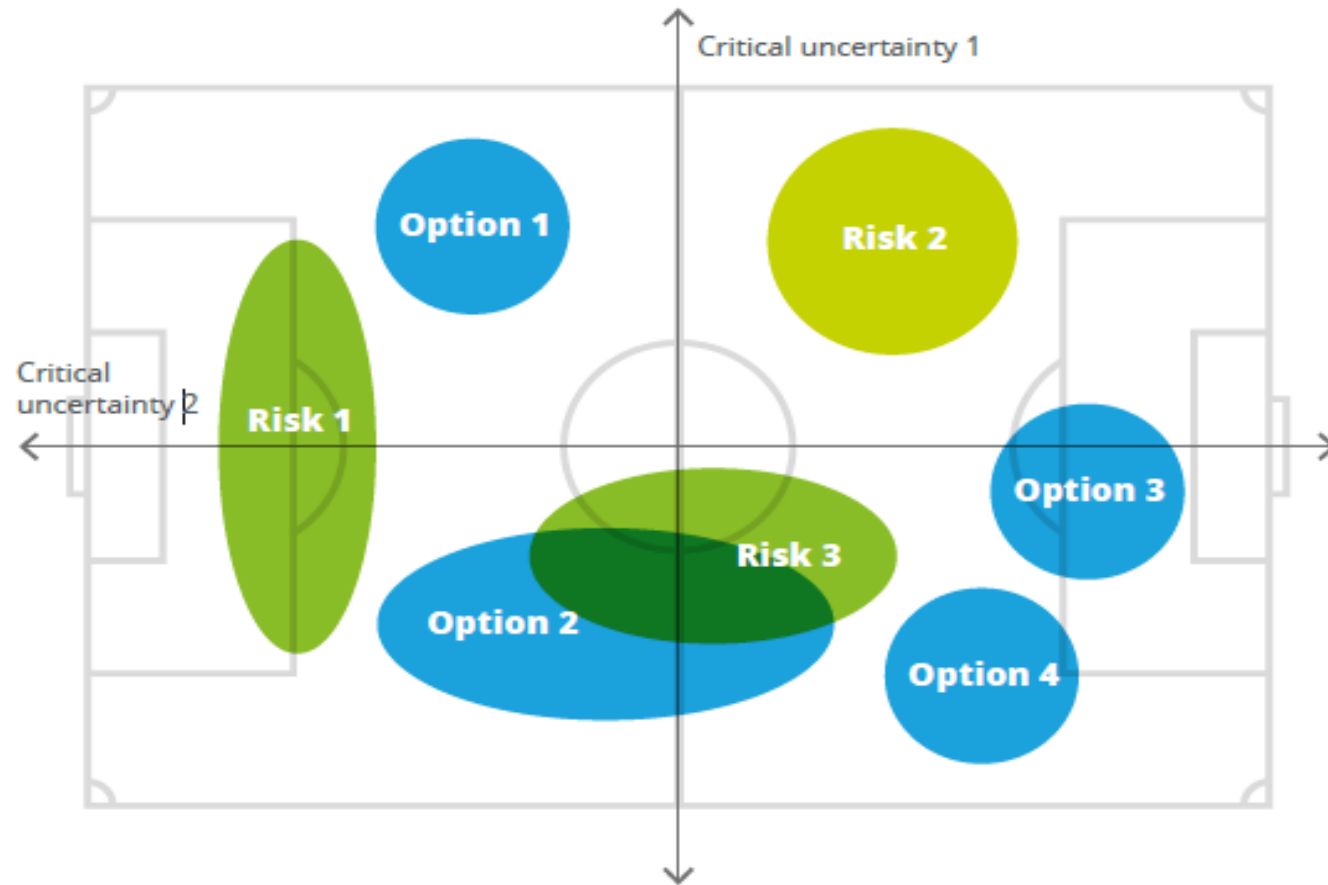


# Strategic Risk Manager



- Improve business margins through availability and
- Structuring of risk management solutions
- Reduce cost of liquidity and risk
- Management through risk transfer and mitigation tools
- Credit assessment
- Mitigate P&L volatility through a structured hedging program

# Risk – the other face of the coin – Expect the Unexpected



# Strategic Business Partner



	This Pay
Gross Pay	388.27
Pension	0.00
AVC's	0.00
Taxable Pay	388.27
Tax	0.00
NI	0.00
KSP	0.00
mp	0.00

- Delivering structuring premium on global treasury setup M&A transactions
- Enhancing structural margins by reduction in cost of financing across the value chain (i.e. channels and vendors)
- Financial sector business partner
- Key contributor to anti money laundering
- Reducing idle cash by unlocking liquidity from cash traps

# Stakeholder Manager



- Enhancing return on equity through optimal leverage
- Enhancing share-holder value through optimized dividend and buy-back programs
- Governance stakeholder
- Managing cost of capital through enhanced banking and credit rating relationship
- management

Expect the unexpected

**“No plan survives contact  
with the enemy.  
H. Von Moltke”**



## ... and analysis of the stakeholders



**Inside the  
organization**

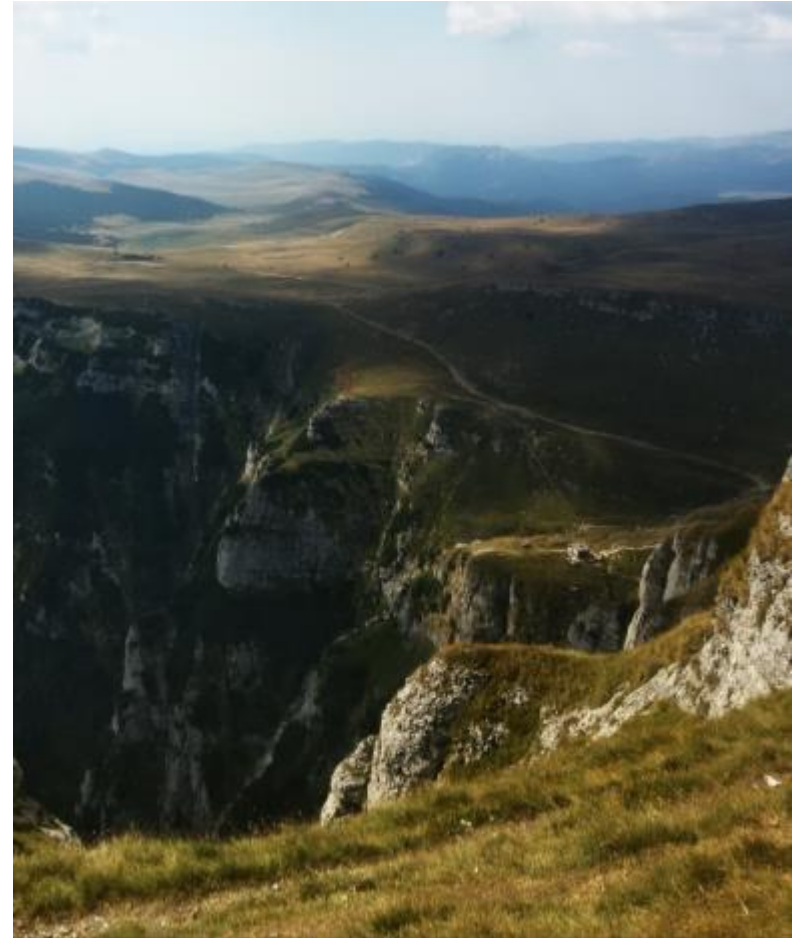


**Outside local  
business**



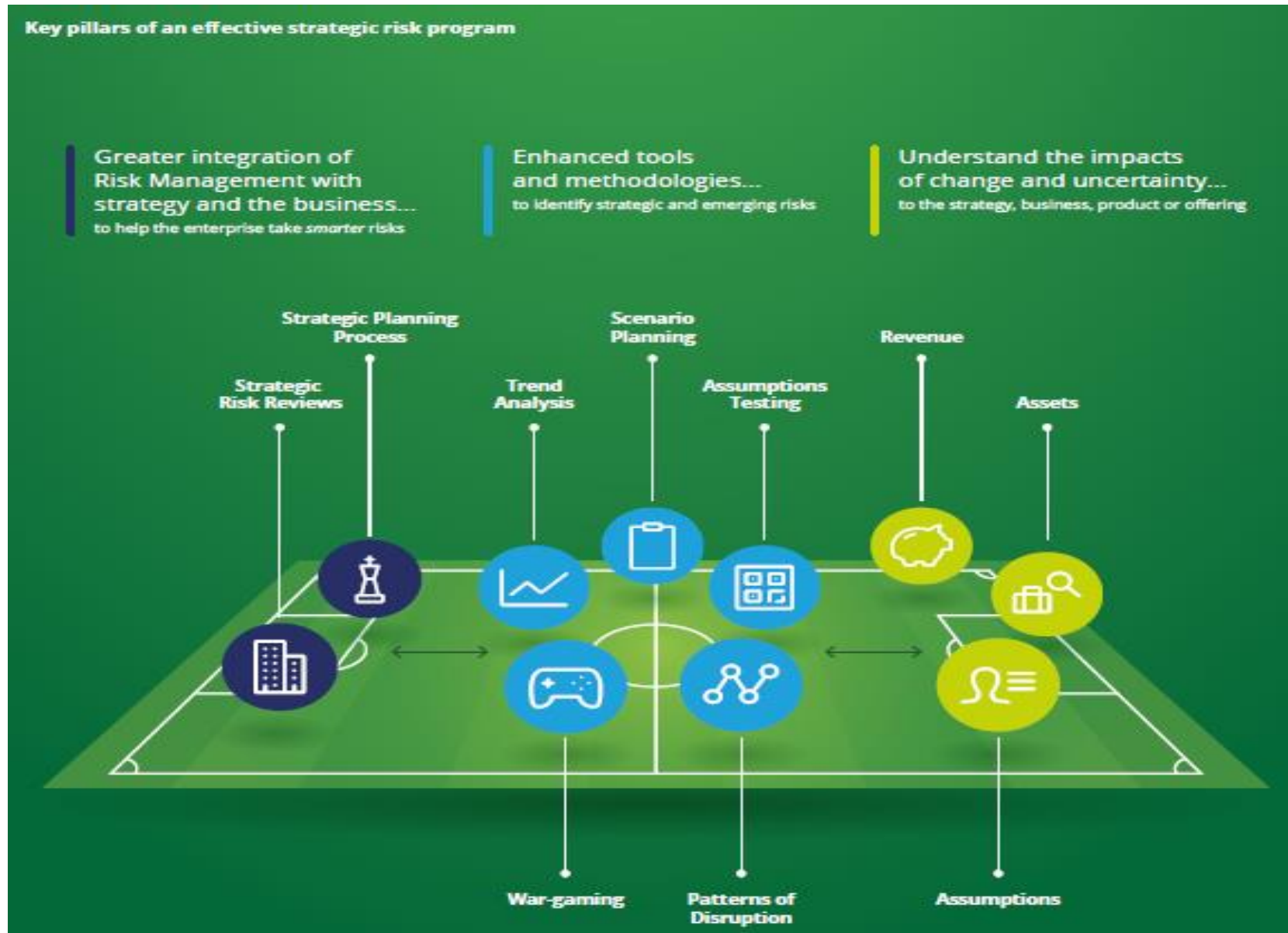
**Outside  
business/industry**

- **List all stakeholders**
- **Analyse their strengths, weaknesses, intentions**
- **Formalise crucial findings**





# Risk – the other face of the coin – Expect the Unexpected



“There are cases in which the greatest daring is the greatest wisdom.”

— Carl Von Clausewitz, On War

**Prepare the unexpected**



## Conclusions

- ☐ Define the End State
- ☐ Foresee the particles correlations
- ☐ Prepare the teams
- ☐ Prepare for the unexpected
- ☐ Maintain solid grip on core responsibilities whilst building-up the value creation


# Thank You

# Appendix

# A shifting role of the treasurer –Liquidity Manager

Measures of	Imperatives for the corporate	Making it happen
Shorter working capital cycle	Control over the working capital cycle <ul style="list-style-type: none"> <li>Financial solutions to unlock liquidity</li> <li>Technology solutions to monitor liquidity at each step of the business value chain</li> </ul>	Increased engagement with business units <ul style="list-style-type: none"> <li>Re-engineering business touch-points that consume working capital</li> <li>Leveraging the ERP and building robust control metrics and reports</li> </ul>
Higher risk adjusted return on surpluses	Cash flow visibility and predictability <ul style="list-style-type: none"> <li>Data-driven portfolio allocation decisions</li> <li>Portfolio diversity and alignment with working capital cycle</li> </ul>	Analytics driven cash monitoring and control <ul style="list-style-type: none"> <li>Increasing surplus deployment tenor</li> <li>Rule-based portfolio allocation tools</li> </ul>
Cost of last mile delivery of funds and financial services	Banking relationships <ul style="list-style-type: none"> <li>Monitoring mechanism over financial delivery cost</li> <li>Technology driven cash monitoring and control mechanism</li> </ul>	Continuous cost management program <ul style="list-style-type: none"> <li>Monitoring cash to cash cycle through ERP and/ or business customized tools</li> <li>Robust operational monitoring mechanism over banking costs</li> </ul>
Easy access to liquidity and financial services at point of need	Innovation in structuring financial solutions <ul style="list-style-type: none"> <li>Technology solutions to enable seamless fund flows</li> <li>Robust cross-border and multi-entity cash management structure</li> </ul>	Educating business unit finance teams on range and cost of financial solutions <ul style="list-style-type: none"> <li>Integrating external financial technologies seamlessly with ERP</li> </ul>



 Focus within the organization


 Focus on financial markets




# A shifting role of the treasurer..... Strategic Risk Manager

Measures of	Imperatives for the corporate	Making it happen
Increased business margins through risk management structuring	Innovation in structuring risk management solutions to provide flexibility and range of pricing options to customers	Partnering with the organization stakeholders to deliver meaningful pricing and risk options to customers <ul style="list-style-type: none"> <li>• Education on financial risks and mitigation options to customers and business teams</li> </ul>
Optimized cost of risk management	<ul style="list-style-type: none"> <li>• Crystal clear view of exposures and cash flows</li> <li>• Optimal mix of hedging instruments and tenors</li> <li>• Counter-party relationships</li> <li>• Innovative risk transfer tools</li> </ul>	Continuous monitoring of exposures and changes in cash flows <ul style="list-style-type: none"> <li>• Risk quantification and decision support tools to facilitate deal execution</li> <li>• Engagement with market participants</li> </ul>
Guarantee of P/L insulation from financial risk	<ul style="list-style-type: none"> <li>• P/L neutral risk management strategy</li> <li>• Seamless execution of risk management transactions</li> <li>• Alignment of accounting and risk management strategy</li> </ul>	Robust processes and technology to support execution of risk management strategy <ul style="list-style-type: none"> <li>• Reporting mechanism to establish offset between hedges and underlying exposures</li> <li>• Implementation of hedge accounting</li> </ul>




 Focus within the organization


 Focus on external markets

# A shifting role of the treasurer – Strategic Business partner

Measures of	Imperatives for the corporate	Making it happen
Structuring premium from global treasury setup	Establishing a global treasury presence <ul style="list-style-type: none"> <li>• Availability of low cost liquidity through modifications and interventions in the trade value chain</li> </ul>	Focus on setting country centers <ul style="list-style-type: none"> <li>- treasury hubs</li> <li>• Aligning currency and credit terms of intercompany transactions with cost of liquidity and hedging cost in a particular geography</li> </ul>
Reducing cost of finance across channels and vendors	<ul style="list-style-type: none"> <li>• Robust value chain financing programs with financial institutions</li> <li>• Banking relationships</li> <li>• Credit risk transfer mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>• Integrating ERP and banking systems and establishing host to host connectivity</li> <li>• Working closely with banking partners to replicate trade workflows in banking systems</li> <li>• Close interface with business finance team</li> </ul>
Unlocking liquidity from cash traps	Visibility over cash across geographies, legal entities and business units <ul style="list-style-type: none"> <li>• Structuring tax-efficient liquidity redeployment</li> </ul>	Close interface between treasury and global tax teams <ul style="list-style-type: none"> <li>• Technology solutions to monitor global cash pools</li> <li>• country cash pooling solutions</li> </ul>




 Focus within the organization


 Focus on external markets

# A shifting role of the treasurer – Business Stakeholder

Measures of	Imperatives for the corporate	Making it happen
Enhancing return on equity and shareholder value	Enhancing return on equity through effective balance sheet structuring strategies <ul style="list-style-type: none"> <li>• Managing and funding dividend payment and buyback programs</li> </ul>	Constantly evaluating structuring opportunities for receivable financing, inventory monetization and securitization <ul style="list-style-type: none"> <li>• Building and stress testing financial plans and long-term cash flows</li> </ul>
Minimizing deficit on employee retiral programs	Aligning investment strategy to the liability profile of retiral plans <ul style="list-style-type: none"> <li>• Understanding and mitigating the risk of actuarial valuations impacting the P/L for defined benefit schemes</li> <li>• Managing/ monitoring investment</li> </ul>	Building model portfolio and performance measures consistent with liability profile and actuarial assumptions <ul style="list-style-type: none"> <li>• Building a robust investment management monitoring framework for both internal and shareholders view</li> </ul>
Optimizing cost of capital and debt	Maintaining and enhancing banking and credit relationships <ul style="list-style-type: none"> <li>• Optimizing cost of capital to the enterprise through the right leverage strategy</li> </ul>	Continuous engagement with market participants <ul style="list-style-type: none"> <li>• Diversifying funding sources and developing a long-term debt funding program</li> </ul>



 Focus within the organization

 Focus on external markets

# Factors of change... from simple to disruptive

<b>Forces / factors at play</b>	<b>Flash in the plan</b>	<b>Gathering Momentum</b>	<b>Gathering Scale</b>	<b>True disruptor</b>
Displaces leading incumbents	Minimum/No	At slow but steady place	Niche; needs mass adoption	Loss of market share for incumbents
Expand market (beyond the substitution effect)	Minimum/Temporary effect	Limited; aggregates products segments	Limited, substitutes existing products	Yes creates new market participants
Exceeds customer value expectations (meets latent needs)	Yes; Solution may port in time	Yes, delivers options, efficiency	Yes, Creates optionality, novelty	Yes, meets expressed and unmet needs
Creates a ecosystem platform (low dependence on govt. Subsidies, enables collaboration)	Minimum if scale is not achieved	Limited; success and place depends on subsidized pricing	Limited; success and place depends on subsidized pricing	Yes; economies of scale achieved from multi-stakeholder participation
Exploit macroeconomic social trends	Yes; Solution may port in time	Yes, addresses emerging, identified needs	Yes, addresses emerging, identified needs	Yes, tailored solution to meet evolving needs