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THE BANK INTERVIEW

Deborah Mur
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Deborah Mur was recently appointed as Western Europe Head for Treasury and Trade Solutions (TTS). Based in Paris, she is responsible for formulating and executing the business strategy for TTS across all client segments in 17 Western European markets. Mur has worked at Citi for 24 years and has held numerous roles across the globe including heading up Citi's Client Sales Management teams in China and Canada. Prior to joining Citi, she held Cash Manager roles in Corporate Treasury with multinational companies in the US.

In this interview, Deborah Mur, Citi's Western European Head for Treasury and Trade Solutions shares her views about the challenges faced by corporate treasurers in changing economic and regulatory environment in Europe. She also looks at trends in treasury technology, working capital management, and the growing opportunities for corporates in emerging markets, particularly in China.

What are the major trade and cash management challenges facing corporate treasurers in Europe today?

The primary issue facing corporate treasurers is still related to the twin challenges of addressing the continued slow growth macroeconomic environment in the region, and an increasingly slower growth trajectory in the emerging markets. While we are beginning to see tentative signs of recovery in some regions, we are seeing slower growth in key emerging markets such as China and India, when compared to growth patterns over the last ten years. However, concentrating on their home region, there is still a great deal of uncertainty coming from governments and central banks. Such uncertainty is not conducive to corporate investment and is therefore impeding a faster recovery, as companies are seeing higher shareholder returns allocating investment capital to faster growing regions outside the European Union (EU). Companies in Europe, coming out of the recent economic crisis, have adopted a strategy to protect principal and have accumulated substantial amounts of liquidity on their balance sheets. As markets slowly improve, their companies are seeking to deploy that capital either through M&A activities, as a means to acquire market share, investments in new plant and equipment to enhance productivity, or by returning cash to shareholders through dividend repurchases. Along with these strategies, revenue growth remains central to their goals, along with the need to manage the financial and operational risks as they expand further into new markets. So, when we discuss with our clients their core strategies for 2014, cost minimisation, productivity gains, supply chain management and working capital management remain essential underpinnings in this environment.

Our clients, be they corporates, financial institutions, or public sector leverage Citi TTS' global liquidity platforms in order to manage costs and mitigate risks including operational, settlement and counterparty risks. In Western Europe, the dominant issue at the moment is Single Euro Payments Area (SEPA) compliance. The recent announcement to extend the transition period for six months from 1st February 2014, will help major utilities with their migration to SEPA transaction formats. Most corporate clients have been addressing SEPA readiness for the past 12 months. The extension is likely to require continued acceptance of legacy transactions types and therefore maintain dual transaction processes (and dual costs), however the countries have adopted different positions, complicating matters for those who are not fully compliant yet. This will need to be monitored closely by companies. We are feeling comfortable about where we are. Most of our customers have either migrated successfully, or are on schedule to do so this month.

The lack of preparedness in other areas of the market is most concerning. Firstly, too many SMEs – within our client's supply chain – and some of the smaller local banks are not yet fully compliant and this will present substantive inefficiencies for those transacting with those companies or banks. Secondly, we are seeing local nuances of SEPA in different countries which runs against the spirit of SEPA. The original objective was to facilitate the movement of capital by harmonising pan-European schemes for credit transfers and direct debits, however this may have been sacrificed along the journey. Some of the markets have maintained local transaction codes and discrete processes which was not the intention of the Payment Services Directive (PSD). Nevertheless, our message to corporates is that you cannot postpone the inevitable. Sooner or later the legacy systems will be switched off and companies who have not migrated by that point will be caught in a really unenviable position.

Some domestic payroll service providers have also been slow in their preparations for SEPA and this will be a concern when the final deadline for adoption of SCT arrives. SEPA presents an excellent opportunity to look at payroll processing for improved efficiencies and reducing operational risk and costs. Moreover, Payroll is one area that has traditionally been the domain of the human resources department, but is now viewed as an area that would benefit from corporate treasury's guidance in ensuring the proper controls exist around the payment process, including cross-border payments for expats, and even in the selection of payroll service providers.

How do you see the regulatory landscape in Europe developing in 2014, and what support is Citi providing its clients in terms of regulatory compliance?

The regulatory environment remains very challenging for banks and corporates; Basel III, SEPA, European Market Infrastructure Regulation (EMIR), Foreign Account Tax Compliance Act (FATCA) plus additional local regulatory changes, including more capital controls. Our clients benefit from our global knowledge and strong industry alliances with regulators, infrastructures and associations. We've recently issued a Global Regulatory Guide to provide clients with updates on major regulatory developments, and address issues and implications for corporates. Additionally, we maintain Country Regulatory Guides with local regulatory information and market practices and share these globally with our clients.

In relation to the increase in regulatory requirements, one of the outcomes has been the acceleration of corporate treasurers improving the visibility and control over bank accounts. Those that have not started yet are well advised to design a game plan with their banking partners because all the key stakeholders – regulators, tax authorities, corporate boards, shareholders – are demanding greater visibility, as well as enhanced reporting related to anti-money laundering and know your customer activities. The fact that regulation is increasing the focus on transparency is a global trend and not one which is necessarily exclusive to the banking sector. It is also reflected in demands from regulators and clients, for greater transparency in transaction content and pricing. Some of the payment systems were prone to abbreviating or cutting off some of that information. But now some of the regulators are requiring more complete issuer and beneficiary details in messages. Of course, ISO XML will address to an extent this issue of data truncation, especially in SEPA countries, and will have the added benefit of improving identification and facilitating straight through reconciliation.

Corporate treasurers also want greater transparency and efficiency around invoicing for bank services. Some companies are asking their banking partners to provide TWIST BSB statements in ISO XML format or other electronic formats to expedite the reconciliation of invoices. We have been working on this at Citi and we are now able to provide invoices in electronic formats throughout most of our more than 100 country network.

What services does Citi offer clients to help them improve their working capital management (WCM)?

Improving the cash conversion cycle and working capital management remains the key priority. At Citi, we offer clients bespoke solutions to help companies optimise their working capital management. For corporate treasurers embarking on such initiatives, we recommend benchmarking your company to your peers as a first step. Citi Treasury Diagnostics is a tool we developed for corporate treasurers to compare on a confidential basis their current treasury and finance practices with other companies in their industry to identify areas for improvement. Based on the results and the corporate's objectives, we'll then recommend solutions that might encompass liquidity management structures, trade finance, transaction processing optimisation, and corporate card programmes. Once compliance is achieved, SEPA presents an opportunity to improve working capital management by simplifying cash forecasting thanks to the consistent value-dating that will be applied for SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD) transactions.

Many clients have implemented our regional or global commercial cards programmes to improve working capital. At the simplest level, cards provide visibility, transparency and control over expenses and procurement by turning variable outflows into predictable cash flows. But procurement cards (p-cards) can add additional value by streamlining the procure-to-pay process and reducing the cost of procuring low-value items. Studies have shown that the cost for a requisition, purchase order, invoice and payment can range between $50 and $75 per transaction. P-cards can reduce that cost by eliminating the requisition, purchase order and invoicing element.

However, travel cards play an even greater role in the emerging markets. In China, for example, total business travel expenditure has been estimated at over $150 billion per annum. It's a big problem for companies today as they have little control or visibility over travel expenditures. Citi rolled out its commercial cards programme in China about a year ago, the first global bank to do so. Initially it was challenging due to local regulations but now there are many companies using our cards and we see significant demand in the market for such solutions.

What opportunities is this process opening up for multinationals in China?

When I first arrived in China, everybody thought it would take at least 15 to 20 years to see renminbi internationalisation. The reality is that it is going faster than anybody predicted, although there is still some way to go before we can expect to see full capital account liberalisation.

China remains a complex market but it is one which corporates need to watch closely. Early adoption is important. Companies should take advantage of the new reforms and the pilot programmes being introduced by the Chinese regulators who want to see participation.

The issue of trapped cash in China is not entirely solved but there is definite progress. Multinationals can now move excess cash out of China in RMB by loaning it to another group company. Regulatory approval is no longer required. The next step is to automate the process by pooling and target-balancing, and we are working on new solutions to leverage the reforms in the Shanghai Free Trade Zone (SFTZ).

For corporates in China, converting inter-company and even third-party cross-border payments to renminbi should be considered. The benefits of this approach are significant; it allows companies to centralise and aggregate foreign exchange exposures from local operating companies to centres of expertise, simplify and automate the payment processes as reduced supporting documentation is required, and improve management of RMB and foreign-currency liquidity from faster payment cycle timeframes.

How can banks support corporates as they expand in emerging markets?

What global banks bring to the table is a strong partner for corporates, one which understands their business, how they operate and can then link the company to the local market in an efficient and compliant manner. Additionally, Citi's Treasury and Trade Solutions network spanning more than 100 countries provides clients a consistent technology backbone, which helps clients control their investment spend. I spent much of my time in Asia explaining to clients how to best manage treasury in China and, how that compares to what we do in Europe and North America. For example, there is a lot of talk in China at the moment about payments-on-behalf-of (POBO) and receivables-on-behalf-of (ROBO).

However the permitted uses of POBO and ROBO in China are different to how the same techniques are used in Europe or North America. Global banks add value in the translation between East and West. We use the knowledge of our clients to adapt solutions to fit within their broader goals and objectives. Really, it is all about connecting the clients and the markets to make it easier for corporates to navigate the globe.

You have spoken about the need for 'best-fit' technology, but what does this mean for treasurers?

We all acknowledge companies operate with complex organisational structures, cultures, and geographical footprints and therefore have different treasury technology requirements. Even within companies it is often the case that there are business units with different ERP platforms or different business processes. Clearly one solution doesn't fit all and for that reason we see companies maintaining multiple connectivity solutions. Treasury and major business units may be using SWIFTNet or host-to-host connectivity with XML file formats, but then there are always outliers in the business that cannot be integrated onto the main platform. That's not a problem as long as the platforms provide the functionality and integration needed along with strong security. Treasurers should maintain their efforts on achieving visibility and implementing proper controls. Fortunately, we offer a broad range of connectivity solutions that can accommodate the needs of complex organisations. Connectivity remains an area in which we continue to invest.

Citi has an ongoing mobile solutions programme, but what are the signs that the mobile model is beginning to gain wider acceptance in the treasury community?

We're tracking activity on our mobile solutions and we're seeing strong momentum. As of Q4 2013, TTS processed $115 trillion in payments actioned using CitiDirect BE Mobile. This technology is going to be liberating for treasury managers.

We announced CitiDirect BE Tablet at EuroFinance in Barcelona last year and I am really impressed with what has been achieved. It's been designed for senior treasury and finance managers to provide anytime, anywhere access to data to support decision-making and action single and batch payment approvals. So far, treasurers who have seen our new app in action see value in the added productivity that this financial tool will bring. ■