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TECHNOLOGY & TREASURY MANAGEMENT

GLOBAL FINANCE

Engines Of Growth

The world of corporate treasury is changing. Increasing international growth among developing-markets companies is causing a revolution in how companies manage cash and liquidity—and thus how banks market their transaction products and services. While global banks continue to focus on their large-cap, developed-market clients, they have left the door open for regional and niche banks and service providers to pull in new clients and build business with two distinct groups: the regional emerging markets champions that are building beyond their own borders, and mid-tier developed market multinationals that are expanding in emerging markets to take advantage of the burgeoning consumer class in Asia, Latin America and Africa.

But this growth requires a solid financial infrastructure, and companies in all segments are looking for better, easier-to-use solutions to their everyday problems. From liquidity management to trade finance, they want systems and services that will help them to grow and help them to be compliant to increasingly complex regulatory regimes at home and in new markets; and they want solution partners that will be there for them, addressing their unique needs, as they continue to expand.

Technology is an enabler—be it of better liquidity management, better accounts payable (AP) and accounts receivable (AR) visibility, or easier trade financing. And, with developed markets in general facing slow or no growth and no end in sight to the European debt crisis, never has it been more critical to enable growth in emerging markets. Their continued development is key to the strength of the global economy.

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Novel Solutions

E-invoicing is taking a quantum leap forward. New solutions help companies tackle age-old issues, such as how to stay compliant in an ever more complex regulatory landscape. **By Paula L. Green**

Electronic invoices are helping companies gain access to their working capital and even toe the line with government regulators. As advances in technology let buyers and sellers tap into low-cost applications, companies of all sizes are increasingly turning to e-invoicing to boost their efficiency and curb the errors that come along with the manual processing of thousands of invoices.

"If you send a paper invoice, it takes 21 to 30 days to get processed. With the spread of information in today's society, it's ridiculous," says Henry Ijams, managing director at PayStream Advisors, a US payments industry research and consulting firm. "Controllers and treasurers want to get rid of it."

Yet analysts estimate that less than 20% of companies are now transmitting their invoices electronically. Christian Lanng, chief executive officer and co-founder of online e-invoicing and working capital management portal Tradeshift, thinks that percentage will grow as cloud-based web platforms let companies—large and small—tie into electronic invoicing easily and for little money.

In 2010, Lanng and two business partners launched Tradeshift, which set the e-invoicing industry abuzz by offering free e-invoices for small and midsize companies (suppliers use the technology for free, buyers then pay a flat fee for access).

Global shipping logistics company Kuehne + Nagel uses Tradeshift to help manage the eight million invoices it receives from 165,000 suppliers each year. Notes Jon Abrahamson, senior vice president at Kuehne + Nagel: "When you consider that some of our suppliers send many thousands of documents to us every year, we could hardly charge them on a per-item basis. Tradeshift turns the whole approach on its head, with very good results."

USER-FRIENDLY

The explosive use of social media applications such as Facebook and Twitter have changed expectations among business owners, who want to tap into user-friendly applications to carry out their operating functions.

"These changing expectations, just over the last two years, have advanced the technology," says Lanng, a native of Denmark. And technological advances then generate new expectations, which again advance the technology—creating a virtuous cycle of development, he says.

While proprietary electronic invoicing applications may have worked for a multinational with thousands of suppliers around the world, the growth of cloud-based applications now lets companies of all industries and sizes tie easily into an electronic invoicing system.

Plus, the technology is maturing, with ever-more-sophisticated invoicing systems on offer, as companies aim to curtail mistakes in data entry and stay in the good graces of government officials.

But getting paper out of the system is not a guarantee of the validity or compliance of the data, notes Drew Hofler, senior solutions marketing manager at software provider Ariba in California. "There can still be mistakes in the data in the invoice. It [e-invoicing] can just get the junk there faster."

"Smart" e-invoicing solutions aim to ease that problem, however. Ariba's Invoice Management Solution, for example, treats a supplier's e-invoice to an automated validation process before it reaches the buyer's accounts payable department, in order to reduce errors and exceptions. "Is the data in the proper field? Is the data in the parameters set by the buyer, such as the right prices? Is the invoice compliant with the contracts that were negotiated?" asks Hofler, referring to some of the mistakes corrected by the smart technology. A smart invoicing system can reduce operating costs, minimize the risk of overpayment and fraud, and even simplify the management of rejected invoices and any dispute resolution processes.

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—Jon Abrahamson, Kuehne + Nagel

BEING STRATEGIC

Corporate financial officers also want to be sure they don't run afoul of the expanding web of government regulations. More and more governments in Europe and Latin America, including the region's economic powerhouses of Mexico and Brazil, are requiring the electronic submission of invoices in order to collect value-added tax—which is driving uptake of e-invoicing in these markets.

The shift to automation is also gaining ground as corporate treasurers weave electronic invoicing into functions from cash management to supply chain financing to purchase orders. "Corporate treasurers are realizing that it [the accounts payable department] and [the process of] paying the bills can be used strategically," says Ijams of PayStream Advisors.

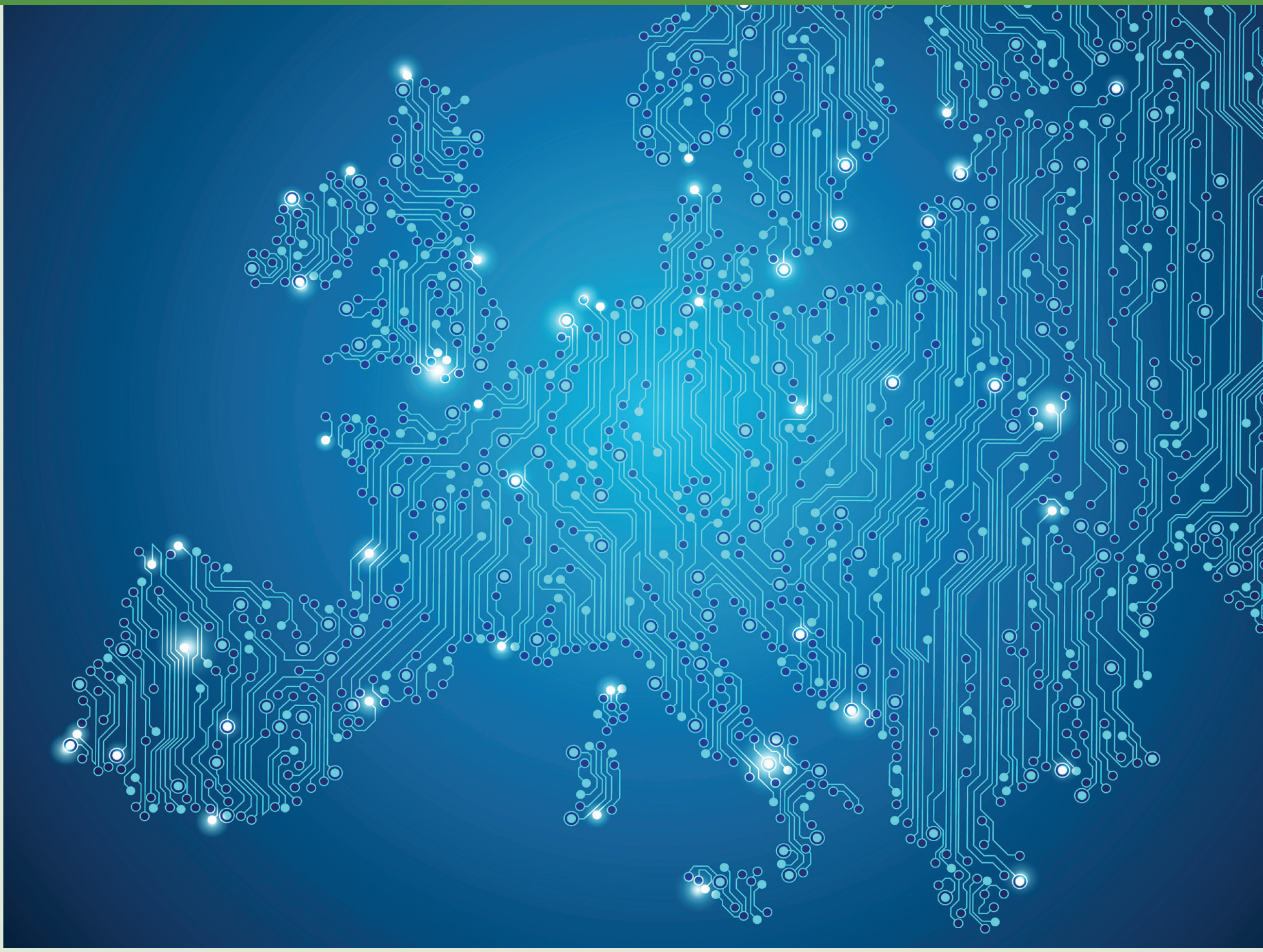
And everyone can come out ahead. Automation of the invoicing process means buyers can offer a faster payment time if a supplier shaves 2% to 3% off the price. This discount frees up capital that the buyer can use for other company purposes, and gives the supplier cash sooner.

BETTER-INFORMED SUPPLIERS

At the same time, e-invoicing gives suppliers more information at their fingertips. They can log onto an electronic system to pinpoint exactly on whose desk their invoice may be sitting within a massive multinational. And by accepting a slightly discounted payment, they have cash on hand for their own strategic goals.

Mediafly, a small company based in Chicago that sells on-demand software and applications to large corporations across the United States, did just that. It tapped into the discount program—offered through the Ariba system to one of Mediafly's clients—to give the Chicago start-up an early cash infusion to ramp up its production and expand its business.

Carson Conant, Mediafly's chief executive officer, notes that, thanks to the solution they satisfied their client and it helped Mediafly land new business with a global bank. "All for the price of a happy hour for our engineers," he says. ■



European Innovators

Poland has apparently taken to heart the European Commission's aim to make e-invoicing the primary method of invoicing by 2020.

The national Polish clearinghouse, Krajowa Iza Rozliczeniowa (KIR), has persuaded most Polish banks to implement a local e-invoicing system called Invoobill. This interbank invoicing and payment system gives Polish banks access to as many as 90% of the country's approximately 10 million active users of internet banking.

Bank Pekao, a financial institution that is part of the UniCredit Group, has tapped into the Invoobill system. It was the first bank in Poland to give corporate clients the opportunity to use Invoobill to send and receive bills and invoices through the same institution—in this case, UniCredit, says Marcin Raczkiewicz, of KIR.

"Up to now corporate clients, or creditors, had to sign an agreement with KIR and then gain the possibility to send bills and invoices," says Raczkiewicz. Pekao Leasing became UniCredit's first corporate client in April 2011, he adds. Last fall Bank Pekao implemented the service for Play, a Polish mobile-phone network operator.

Invoobill is now used by eight service providers, says Raczkiewicz, adding "I hope that Poland is going to be at the forefront of the invoicing market in Europe during the next few years."

A February 2012 report from e-billing market research company Billentis, shows that Scandinavian countries are leading the e-invoicing pack in the European Union. More than 30% of invoice and billing transactions between businesses and governments in Sweden, Denmark and Finland are moving through electronic means. Between 10% and 30% in Norway are moving electronically.

A subsequent March 2012 Billentis report, *E-Invoicing/E-Billing: Market Opportunities in a Challenging Market Environment*, notes that e-invoicing between businesses to ensure compliance with the value-added tax has been legally permitted in Nordic countries since around 2000 and in Switzerland since 2001. Member States of the European Union have had to accept it since 2004. Potential European Union users required some time to interpret the new laws and started their projects fairly quickly.

The European Commission has supported several initiatives to encourage e-invoicing. Last year, for example, the European Multi-Stakeholder Forum on Electronic Invoicing began its work to bring public and private sector officials together to exchange best practices. *—PG*

Banking On BPOs

Bank Payment Obligations could change the way that companies manage their global supply chains, making it easier and safer to work with new suppliers in risky markets. But acceptance takes time. Standardized rules to be released by the International Chamber of Commerce could help boost their use. By Paula L. Green

Global traders will have a sturdy new tool for their trade finance toolbox next year when the International Chamber of Commerce (ICC) places the seal of approval on new rules governing the electronic exchange of bank payment obligations (BPOs).

BPOs have the potential to change the world of trade finance by effectively acting as an automated letter of credit, bypassing the tedious document management and exchange process involved in a traditional LC with a much faster and easier alternative. Although BPOs won't replace open-account trade finance arrangements—which provide a direct connection between a buyer and its supplier—they could change trade relationships between buyers and suppliers with a shorter history of working together, making it easier to enact trade in risky markets and set up new supplier lines.

The long, tedious process to develop

ICC standards that banks can use to regiment the exchange of these payment obligations reached an important milestone at the annual Sibos technology conference in Toronto last fall: The chamber's banking commission signed a cooperation agreement with global financial messaging provider, SWIFT—host of the Sibos conference—to recognize bank payment obligations as a trade instrument.

SWIFT's Trade Services Utility (TSU) offers the required interbank messaging and matching utility for banks to handle their customers' BPO transactions. The agreement paved the way for banks to use the SWIFT BPO rules as an automated alternative to traditional letters of credit for settling a trade transaction.

> **"ICC adoption of the BPO as an instrument of financial supply chain business will be a huge milestone"**
>
> *—Sharyn Trainor, Deutsche Bank*

STANDARDIZATION IS KEY

The ICC's network of national committees in about 70 countries is expected to sign off on the use of the BPO standards by the spring of 2013, says André Casterman, head of banking and trade solutions for SWIFT in Brussels, and co-chair of the bank payment obligations project of the International Chamber of Commerce in Paris.

The ICC was established in 1919 to ease the flow of international trade and helped shape the Uniform Customs and Practice for Documentary Credits. These rules governing letters-of-credit practices were first introduced in 1933 as UCP 100. The aim was to create uniformity in global trade finance rules and reduce confusion as individual countries promoted their own national rules on letters of credit. The latest version, UCP 600, is now in use around the world.

Banks need the BPO standard rules to secure their customers' international receivables, says Casterman, adding that the BPO rules carrying the ICC seal of approval will ease the way for small and midsize companies to use this new trade instrument.

A BPO offers banks and corporations the best practices from the popular open-account settlement option, along with the best practices from the world of letters of credit, Casterman says: the speed and freedom of open accounts and the security of the paper trail offered by letters of credit.

Dan Taylor, executive director of J.P. Morgan Treasury and Securities Services, says that by working together the ICC and SWIFT will help boost the role of the BPO in supporting international trade development in the 21st century. "By using electronic transaction data, the banking industry is preparing itself to better respond to the desire of corporate clients to accelerate financial processes and optimize working capital," Taylor says.

SWIFT and the ICC have created a joint working group to establish the BPO as an industry instrument that is technology-neutral. The working group has created three subgroups to help carry out its work: a drafting group, which is working on a technology-neutral set of rules for the BPO; an education group to help inform bank and corporate executives about the benefits and processes surrounding the BPO's use and the BPO utility in the TSU; and a commercial group to help banks and corporates actually utilize the BPO.

BETTER VISIBILITY, LOWER COSTS

Paul Johnson, senior product manager with the global trade and supply chain team at Bank of America Merrill Lynch, believes the use of SWIFT's trade utility for BPOs will probably begin in the latter part of 2013 or early 2014, as the technology to implement the utility is mapped out. "Everybody sees the benefits," says Johnson, referring to bank and corporate support of BPOs. They can provide improved liquidity visibility, time and cost savings and greater legal certainty—once the ICC issues its final rules in 2013.

"It has been a long process involving many discussions by participants over the years," adds Johnson, referring to the complex negotiation banks and companies have gone through to agree on uniform rules for the new trade finance tool.

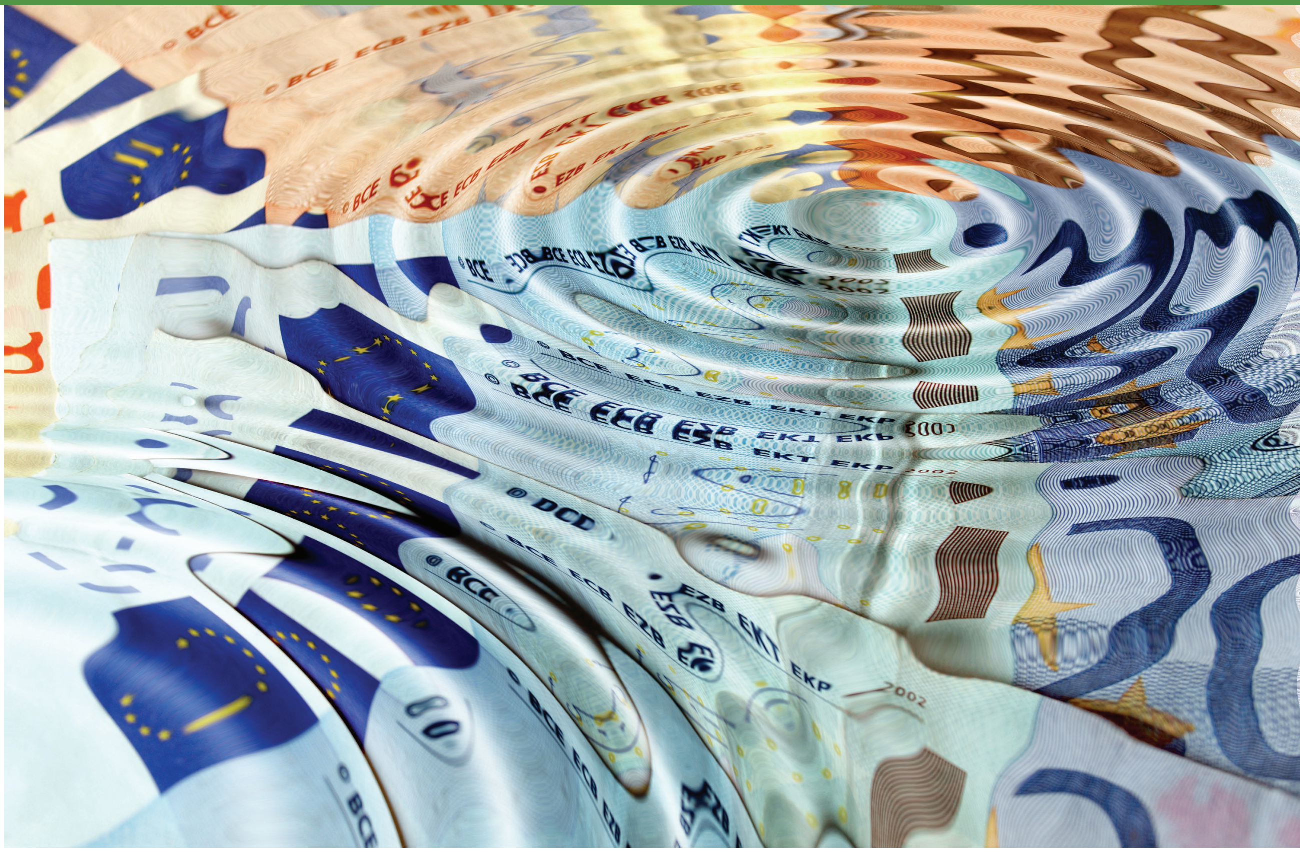
GAINING CRITICAL MASS

The SWIFT BPO utility is technically available, and a number of banks are actively using it to execute transactions—Chinese banks were first movers. But volumes have not yet reached critical mass, notes Sharyn Trainor, director of financial supply chain product management at Deutsche Bank.

"ICC adoption of the BPO...will be a huge milestone," says Trainor. "The financial supply chain business is growing, and the support and acceptance of the BPO by ICC will help broaden market acceptance and [develop] critical mass."

Trainor notes that uptake of bank payment obligations will be driven by its acceptance by corporates. "Only the future will tell, but the potential is there," she says, enumerating the new payment obligation's many advantages. "It is highly flexible, as it may be undertaken at the beginning, such as along with the purchase order details. But it can also be added at a later point in time during the trade transaction."

"It is a standardized and easy-to-use tool in the life cycle of trade transactions," Trainor concludes.■



The New One-Stop Shop

Liquidity management is the latest corporate treasury process to get the one-stop-shop treatment by big banks and solution vendors.

By Rebecca Brace

A few years have passed since the financial crisis propelled liquidity management to the top of the corporate treasurer's priority list. What is surprising is that it has topped the agenda for so long, thanks to the ongoing crises being experienced worldwide since 2007.

As its importance continues to grow, corporates want better, and easier, tools to manage liquidity. And their banks are starting to respond: with new liquidity management tools and one-stop-shop portals where CFOs and corporate treasurers can get not only a single view on global liquidity but also a forward view on liquidity needs and tools to manage it.

As Michiel Ranke, Head of GTS i-LIM Investments at RBS observes: "Liquidity management is a big concern for corporate clients today—much more than we would have expected a couple of years ago. Then we expected that interest rates would rise by now, but that has not happened. The financial crisis has proved to be deeper and longer than we anticipated."

The eurozone debt crisis has only increased the importance of liquidity for treasurers worldwide. Lisa Rossi, Deutsche Bank's managing director and global head of liquidity management, Global Transaction Banking (GTB), notes: "We have seen a greater analysis of counterparty relationships as a result of the eurozone crisis. Corporates are not relying just on the ratings agencies alone and are often looking to do their own due diligence. Pre-2008 there might have been some complacency in accepting counterparty risk, but we don't believe that is the case anymore."

THE RISE OF INTEGRATED LIQUIDITY MANAGEMENT PORTALS

The focus on liquidity management is here to stay. And its importance has been reflected in a recent flurry of activity by global banks looking to build out their liquidity management technology. This has given rise to the concept of the "liquidity management portal." Although some industry participants use the term to describe technology focused on one aspect of liquidity management, such as a money market fund portal, it is increasingly being used to refer to a system that brings together several different areas of liquidity management under a single sign-in.

The technology lets corporates view balances held with multiple banks and manage cash concentration structures, short-term investments and reporting online. "A liquidity management portal provides an integrated platform of liquidity information, planning and analysis," says Rossi.

It lets companies do simple cash flow forecasting, planning and analysis, and lets them interface directly with trade execution applications—improving management of excess liquidity or credit positions.


Bramwell, SunGard AvantGard: A bank's one-stop-shop portal is usually limited to that particular bank


Glendinning, Lenovo: A liquidity management portal would be nice to have, but is not a necessity

THE BANK OFFERINGS

Deutsche Bank is now piloting its liquidity management application, Liquidity Manager, and it is not the only bank building up its online liquidity offering. Suzanne Barry, EMEA head of liquidity and investment at Bank of America Merrill Lynch, says that CashPro, the bank's offering, is a multibank-enabled portal which "allows clients to connect virtually to the global treasury, debt, liquidity, investment, trade and foreign exchange solutions they need through a single sign-on user identity." The bank is now developing an EMEA investment tool that will let companies place time deposits and money market funds through the CashPro portal.

> **"A liquidity management portal provides an integrated platform of liquidity information, planning and analysis"**
> ***—Lisa Rossi, Deutsche Bank***

Another established offering is Citi's electronic banking platform, CitiDirect. It provides balance and transaction reporting and includes direct access to a number of modules—such as TreasuryVision, for analytical and reporting tools; and Citibank Online Investments, the bank's investment portal. "Many of our clients tell us that cash flow forecasting is one of the biggest pain points in cash management, so within TreasuryVision we are incorporating a new cash flow forecasting capability which is designed to ease some of that pain," says Hugo Parry-Wingfield, EMEA head of liquidity and investments at Citi Transaction Services.

RBS launched a liquidity solutions portal in October last year, and J.P. Morgan's liquidity portal, J.P. Morgan ACCESS Liquidity Solutions, was rolled out a year earlier. The portal concept is not limited to the world's largest banks: Swedish bank SEB is looking to combine forecasting and trade in its existing cash management and custody portal. "We have separate offerings today, but in the future we will provide a full-service offering in a single interface," says Per-Erik Wellstedt, SEB's global head of GTS Internet Banking.

BANK-AGNOSTIC SOLUTIONS

Although banks have been investing heavily in this area, they are not the only providers of liquidity management technology in the market, as Paul Bramwell, senior vice president, treasury solutions, at SunGard AvantGard, points out: "Banks all claim to offer a single one-stop-shop portal, but that's usually within that particular bank. As a treasury solution vendor, we are completely bank-agnostic—which enables companies to divorce themselves from the technology that banks provide."

Although the liquidity management portals offered by banks do sometimes provide access to account information from third-party banks, Bramwell says that this facility tends to be expensive—and also makes the corporate client even more reliant on a particular bank relationship. "Technology is a way to make relationships sticky. We're seeing corporations really wanting to move away from these types of solutions and use available third-party networks and connectivity where possible."

Despite all the activity in this area, for many corporate treasurers the concept of the liquidity management portal is not yet on their radar. "It is a great idea—I just haven't seen much reality yet," says Damian Glendinning, treasurer of Chinese electronics company Lenovo. To Glendinning, an all-singing, all-dancing liquidity management portal would be a "nice to have," rather than a real necessity—but he adds that any step forward is always welcome. ■