The Resilient Treasurer

Building a Digital Armoury for 2021

Without question, the Covid-19 pandemic has strengthened the business case for digitisation and dramatically increased the pace of digital adoption. Treasury 4.0 technologies, such as data analytics and application programming interfaces, will be key to building long-term resilience. Here, four HSBC experts examine the challenges, risks and opportunities of embracing digital treasury capabilities – and highlight areas ripe for innovation.

By **Eleanor Hill**, Editor

"Hang on to your hat. Hang on to your hope. And wind the clock, for tomorrow is another day." When E.B. White, author of *Charlotte's Web*, penned these words to a man who had lost faith in humanity, Coronavirus was unheard of. Yet White's words highlight one of the most important concepts to emerge from the current global health crisis: resilience.

Indeed, the term 'resilience' has become the zeitgeist of 2020 in corporate treasury circles. Yet the focus of conversations has tended to be on short-term resilience, rather than building resilience into the heart of the treasury function. Now, treasurers are wondering how to become more resilient in the longer term, without additional headcount and significant budget increases.

No Turning Back

The Covid-19 crisis has taken a terrible toll on lives and livelihoods. Nearly every business has been impacted, and many have faced significant challenges in adapting to the 'new normal'. Nevertheless, the pandemic is acting as a catalyst for long-term change within businesses, with a focus on building resilience and shaping positive and sustainable transformation.

Opportunities for business efficiency and growth are also being realised as a result of Covid-19. Digital tools, for example, have not only been saviours in a remote working environment, but are also becoming more ingrained in day-to-day workflows – even altering entire business models.

What matters now is for organisations to capitalise on the changes brought about by the pandemic. Once vaccines are rolled out and offices re-open, there must be no going back to the old, inefficient ways of working – only moving forward.

Treasurers have a once in a lifetime opportunity to change their working practices for the better. In this series of thought leadership articles, infographics and podcasts, our HSBC experts will share best practices to assist in this endeavour. We will also outline our vision for the future of transaction banking, and highlight our own innovations in this space – all aimed at enabling treasury to fulfil its true potential.

We hope you enjoy this series and we look forward to engaging with you around the topics discussed.

DIANE S. REYES

Group General Manager and Head of Global Liquidity and Cash Management, HSBC

Debunking treasury resilience

According to Karen Gilhooly, Managing Director, Global Head of Employee and Customer Engagement, HSBC, "Resilience is the ability to respond, when needed, to the changing circumstances around you. It requires grit, determination, flexibility, creativity and curiosity."

Gilhooly admits, however that the 'r-word' has become rather over-used in recent months, much like the term 'Zoom.' "That said, it is important not to dismiss corporate resilience as either a fad or a topic that only concerns the board," she cautions. "Treasurers are arguably the ones who need to be most resilient within an organisation – since they are in charge of the lifeblood of the organisation: cash." Importantly, though, Gilhooly warns that being resilient does not mean solely focusing on how treasury needs to adapt. "Recognising what's going on with treasury's customers, both internally and externally, is equally important. Everyone's world has been turned upside down by the pandemic; customers are also displaced and may be struggling to adapt."

Carlos Gonzalez Fillad, Managing Director, Regional Head of Latin America, Global Liquidity and Cash Management, HSBC, adds: "Treasury teams have been the ones processing payments and keeping the business alive, against a backdrop of unprecedented uncertainty and change." Not only were treasury teams suddenly required to work remotely, some companies changed their product lines entirely overnight. "Businesses that were previously manufacturing space rockets began making hospital equipment. Perfume companies started making hand sanitiser. This led to inevitable changes in the supply chain. As a result, treasury had to cope with paying different suppliers, while taking care of the working capital, and operating under extreme pressure."

Meanwhile, companies have also been embracing trends such as direct-to-consumer sales, says Fillad. "This has seen treasury needing to adapt to new payment and collection models, as well as the real-time environment." While this pivot was initially a matter of short-term survival, organisations are now waking up to the benefits of a much longer-term digital shift. "And this is where treasury needs to up its resilience game – by embracing the benefits of becoming digitally-enabled," he notes.

Taking digital further

Brian McKenney, Chief Innovation Officer and Head of Strategic Initiatives, Global Liquidity and Cash Management, HSBC, could not agree more. "For companies that hadn't previously made 'digital' a priority, the pandemic has been an inescapable catalyst. The cultural imperative around the investment in technology has sharpened – and treasurers have an amazing opportunity to leverage this momentum and enhance the strategic value they bring to the organisation."

He continues: "In good times, a treasury function is like great lighting in a theatre: when it's done perfectly you don't notice it, and improves the whole production. But the lighting team rarely gets the praise it deserves. This year, treasurers have become the stars of the show. Their ability to adapt and thrive in these challenging circumstances, to keep the cash flowing and the risk managed, has propelled them even further into strategic leadership conversations. What's more, all parts of the business now have a greater understanding of the treasurer's role, and the importance of instant insights into cash positions. As a consequence, a truly digitally-enabled treasury function has become a 'must have.'"

But what makes a great digital treasury function? Which technologies are fundamental, and which bells and whistles might treasurers want to consider?

KAREN GILHOOLY

Managing Director, Global Head of Employee and Customer Engagement, HSBC

A digital framework

First and foremost, is the ability to access digital platforms – which as basic as it sounds, was not the case for many treasury functions prior to the pandemic. Gilhooly notes: "The number of customers we had working with us in a manual mode was quite shocking. We've now introduced them to the concept of digital working and helped them to make that leap. With the fundamentals there, and a comfort level around digital now established, we can start to explore the next level of digital functionalities with them."

An important aspect of this digital foundation, says McKenney, is mobile capability. "We'd already seen huge adoption of the HSBCnet Mobile App, but between July and September 2020, there was a 154% increase in the number of customers using it compared to the previous year," he explains. Functionalities such as digital cheque deposits have also become understandably popular during lockdown, as treasurers look to dematerialise all aspects of their operations.

To ensure security, HSBC has pioneered biometric access on the app, giving treasurers confidence to authorise and make payments while working remotely. The bank has also added a graphical view of cash and liquidity positions, providing at-a-glance insights. "Now even more treasurers have discovered the difference this functionality can make we expect this confidence to mean the app will become a feature of everyday digital treasury operations once 'normal' business resumes," predicts McKenney.

Another functionality that will likely forge ahead post-pandemic is e-signatures. Stefan Hardy, Managing Director, Chief Control Officer, Global Liquidity and Cash Management, HSBC, notes: "Electronic instructions and signatures on contracts, as opposed to hard copy signatures on documents, have quickly become an essential part of remote working. As a bank, we rapidly adapted to these needs, and changed our internal processes and procedures. We then worked with customers to help them ensure proper use of e-signatures in a secure environment, in line with regulatory restrictions. Everyone is now wondering why they have been using wet signatures for so long!"

Moving away from paper, not just for contracts, but for a range of – if not all – treasury workflows, could also lead to a significant uptick in the ability to use robotic process automation (RPA). Typical areas where this can be applied include:

- Reconciliations
- Exposure capture
- Financial reporting
- Payment execution
- Deal confirmations
- Accounting

It is possible to layer artificial intelligence (AI) and machine learning tools (ML) on top of RPA, to build a type of 'smart RPA.' This could be used for intelligent reconciliations, for example, which can help to match part payments to invoices – freeing treasury up for more value-added tasks. Hardy comments: "RPA can also improve the control environment, removing manual errors, which is beneficial for overall resilience."

TURBOCHARGING CASH FLOW FORECASTING

While cash flow forecasting is a perennial treasury theme, it is becoming more powerful, with the addition of 'big data' and data analytics, believes McKenney. With this in mind, HSBC has enhanced its, now mobile-friendly, Liquidity Management Portal (LMP) with an option to access a cash flow forecasting tool. This allows treasurers to compile a forecast of all cash movements that impact their organisation's day-to-day cash position, from the present day to any chosen time horizon in the future.

Hardy elaborates: "Currently available in nine markets, this tool makes it easier for treasurers to build an accurate picture of their cash and their future cash flow. Being a self-service solution, it enables treasury to see their cash position at the touch of a button, which helps to remove risk and increase control. It's a no-brainer."

There is also added value to be had – an opportunity to go beyond the flows and gain behavioural insight into customers, thanks to data analytics, says McKenney. "Treasurers can quickly assess a customer's aptitude and ability to pay in a timely way. And once it's clear which receivables are unlikely to be paid on time or in full, the team can focus more of their collections efforts on those customers. Then, perhaps most importantly, comes the ability to mine data to determine: who are the customers that the company should be trying to do more business with? Who are the customers that the team should be looking to do less business with?"

This, McKenney believes, is where the treasury function can start to play more of an expert, trusted adviser, role within the business. "Cash flow forecasting tools are becoming much more than predictive gauges for treasury teams. The insight they provide can help to shape the commercial strategy, and to manage risk – which is all part of long-term business resilience," he says.

Unleash the APIs

Well-equipped digital treasury functions also require tools that enable them to have full visibility and control over their cash. Gilhooly notes: "If cash is the lifeblood of the company, data exchange is like the circulatory system, coursing through the organisation. Having the right data, at the right time, in the right place, with the right controls around it, means having the ability to understand where money is going and what the expectations are for the future."

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One of the main tools that can enable this data exchange is application programming interfaces (APIs). McKenney spells out the benefits: "We're enjoying big success with our treasury APIs and deepening our relationship with customers by easing treasurers' workloads and helping them make more informed and timely decisions." APIs, he explains, offer seamless access to real time data. "Rather than waiting for an end of day statement, customers can ping the bank anytime and immediately receive the data they require. On the back of that, they can perform reporting and analytics to understand which receivables have come in, for example. That data can also be automatically fed into our new cash flow forecasting tool to garner greater insights. "

As well as APIs for reporting, HSBC also offers a selection of payment-related APIs. Hardy comments: "We have real-time payments capabilities in 22 markets, giving treasurers greater visibility and control over payments 24/7/365. In a number of markets those payments can be initiated instantly via APIs, from within treasury workstations, without having to switch between separate bank platforms. We also have a payment tracker API, which provides complete transparency over the payment's end-to-end journey."

This tracking functionality, which leverages SWIFT gpi as well as some proprietary innovations, reduces risk for customers, especially in relation to fees – since these are clearly visible across the entire payment chain. "This is very much in the spirit of good conduct and treating customers fairly," notes Hardy. "Ultimately, it benefits both treasurers and the bank through greater visibility, while complying with regulatory requirements."

Gilhooly, meanwhile, highlights the service benefits of this payment tracker. "One of our most common query types is customers asking: 'where is my payment'? Our new self-service technology allows customers to track and trace a payment – without needing to contact the bank. It's a way of empowering treasurers to answer difficult questions and solve problems quickly and efficiently."

There are resilience benefits too, says McKenney. "APIs make treasurers less dependent on the limitations of their own technology to manage their payment flows. When APIs are leveraged properly, everything becomes automated and runs in real-time. This removes manual workflows and batch processing, as well as improving efficiency and freeing the treasurer up to be more strategic."

Streamlining payments and collections

Any truly resilient digital treasury function must also have access to different ways to pay and collect, to meet the evolving needs of the wider business. Gilhooly comments: "From card payments to digital wallets, ACH payments and real-time payments, treasurers must be on top of all possible

EMBEDDED FINANCE: ONE TO WATCH

Another emerging trend, fuelled by APIs and open banking, is the move towards 'banking-as-a-service' or 'embedded finance'. For those not familiar with the concept, it involves banks enabling customers to embed financial services in their own products – essentially offering the bank's solutions to the customer's customer, and indeed their suppliers. This could range from payments capabilities to lending, insurance and investments. This is a growing market, estimated to be worth 7tr. by 2030 for those who enable it.

Says McKenney: "Treasurers have an opportunity to work with product teams to strengthen their sales proposition by embedding financial services in their products. At the moment, this is proving popular among large technology companies, but I see challengers coming to the table with their own take on this idea. It will be an interesting area to watch and one that treasurers would do well to keep on their radar throughout 2021."

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avenues for sending and receiving funds. What's more, they not only need to be able to process transactions in a timely and seamless manner, they must also be able to collect and analyse all of the data that arises from those transactions."

Fortunately, innovations exist to help in this endeavour. Hardy highlights HSBC's Omni Collect solution, which is live in 11 markets and leverages API connectivity to enable merchants to offer multiple payment options to consumers, including instant payments, e-wallets and cards. The solution also offers a comprehensive view of collections across these different channels. "Not only does it provide a great experience for the end customer, it means that the treasurer has increased visibility – and can reduce reliance on physical cash, which is especially important right now for health and safety reasons."

In fact, HSBC worked with a healthcare client in Malaysia to use the Omni Collect solution and a QR code to enable contactless payments at Covid-19 drive-thru testing sites, says Hardy. "It's a great example of how technology can help mitigate risks, improve efficiency, and underpin resilience."

Elsewhere, McKenney highlights blockchain as a potential technology to watch in the payments space. "I believe payments in blockchain-based ecosystems will become more mainstream in the years ahead. HSBC has already worked with the Singapore Stock Exchange to set up a blockchain-based system for managing the payments flow around bond issuances, which involves automating coupon payments using smart contracts, for example. It's exciting to see real-life blockchain use cases coming to fruition in treasury."

Also inspiring is the potential of the data that comes with these digital payment and collection solutions to help control risk. Hardy comments: "Cash and cheques don't provide the full end-to-end trail of the different counterparties involved in a transaction. With digital payments, it is possible to obtain more complete visibility over a payment's journey. This data can be fed straight into monitoring systems to help identify and detect potential money laundering or fraud risks."

The fight against cybercrime

Unfortunately, the pandemic has led to a significant increase in fraudulent activity and cybercrime. And the more digital tools a company uses, the more avenues it opens up to cybercriminals – if the correct controls are not in place.

Fillad is a champion in the fight against cybercrime. He is part of the Central Bank Consultancy Payment Board which aims to protect the payments industry. "Global cyber threats have grown over 100% in this last year," he says. "Whenever you have this environment of permanent anxiety and rapid change, it creates stress that distracts people and opens the door for cybercrime. Attacks have happened across all client sizes, sectors and regions."

Cybercriminals, he says, are taking advantage of remote working and trends such as the Internet of Things. "A treasurer might have good protection when it comes to their work laptop, but their home WiFi might not be well protected, or perhaps their interactive home hub – Alexa or Siri type devices – could have spyware installed on it. Someone's neighbours could even be spying on them and listening to conversations, which could then lead to advanced social engineering attacks. Properly protecting the perimeter at home is critical, therefore. And of course, cyber resilience is not just about keeping the company's systems and data secure – it is about customers' and suppliers' data too."

Another 'golden rule' for Fillad is to slow down in order to avoid making potentially fraudulent transactions in error. "We strongly suggest that customers do not adopt a culture of 'urgent' payments. We recommend a 24-hour window for reflection on such requests. It's better that the money arrives a little late than that the funds are sent to fraudsters and cannot be recovered." This seems prudent, given that between April and May 2020 alone, there was a 200% increase in business email compromise attacks focused on invoice or payment fraud[1].

It's also important to have a completely 'sanitised' digital operating environment when looking to keep cybercriminals at bay, says Fillad. "Conduct a regular inventory of users in your platforms, and remove anyone that shouldn't have access. And create different routes for employees to query and verify instructions – through

WhatsApp for example, to build in distance from compromised systems."

As simple as it sounds, he says treasurers must also update their passwords regularly, and use more secure methods for generating them. "Around 50% of the passwords used across the globe are discoverable. Treasurers can't use simple passwords anymore, and definitely not the same password across different platforms. Algorithms should be used to generate passwords for better security," he suggests.

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The human touch

As much as targeted technologies can help to fight cybercrime and fraud, people are one of the greatest assets in this endeavour, believes Fillad. With this in mind, the bank is about to launch its first Cyber Academy, which will see HSBC engaging virtually with some of the largest firms in the world to discuss their approach to cybersecurity, and to share best practices. "Only by speaking openly about cyber-attacks and removing the taboo around this topic will we be able to learn and stay ahead of the criminals," he says.

The Cyber Academy will run alongside the regular cybersecurity and fraud training the bank provides to customers. During the pandemic, HSBC has also been offering wider training around its digital platform capabilities, says Gilhooly, to ensure that all customers are getting the most functionality from what they have. "Our platforms are fully-loaded, yet people don't always realise the capabilities that are there," she explains. "Targeted training can help treasury teams use digital tools even more astutely, and ultimately to extract more value from them – for free."

These training sessions also contribute to building mental resilience, which is a key ingredient alongside operational and digital resilience. Says Fillad: "Treasurers are under immense amounts of pressure and many are anxious. Having someone to talk to is important, whether it's to troubleshoot issues with, or to listen to your concerns on a human level."

This, he says, is why the bank's client service team is so important and so valued. "During lockdown, we've enabled our teams to answer the phone without sending clients to a call centre or asking them to raise a ticket, which makes a huge difference to anxiety levels. The security of our platforms also offers comfort to clients. Our payment infrastructure has received 20% more traffic than last year – because customers believe in the resilience of our platform."

The value of being empathetic should also be recognised, says Fillad. "We cannot forget the human impact of this pandemic and we must work together to beat it." For example: "We are the main bank for the national Social Security Institute in Mexico. During the pandemic, we found that people couldn't go to branches to pick up their child benefits, or sickness benefits. This was not acceptable to us on a human level. So, we quickly implemented an electronic mechanism for payment, cutting out the need to go to a branch. And we strongly expect this to continue post-pandemic."

Building for the future

This example perfectly demonstrates the power of humans and technology working in tandem to implement a creative, compassionate, and future-facing, solution. "This is the embodiment of long-term digital resilience," Gilhooly comments.

"What's important now is to keep looking forward. With the momentum around digital transformation generated by the pandemic, treasurers have a mandate to change the rules of the cash management game. Banks too, have an opportunity to innovate like never before. Digital solutions are there for the taking, and there is no slowing down," she concludes. ■

FIVE COMPONENTS OF A RESILIENT DIGITAL TREASURY: AT A GLANCE

1. Cash flow forecasting tools. For planning ahead.
2. Robotic Process Automation (RPA). To remove manual workflows.
3. Application Programming Interfaces (APIs). For real-time data insights.
4. Big data and data analytics. To see patterns and trends.
5. Mobile functionalities. For visibility and control from anywhere.

View our infographic for a broader overview of digital treasury resilience.

treasury-4-0.com/hsbc/NA/382/the-resilient-treasurer-infographic.html

Note
1 https://www.helpnetsecurity.com/2020/06/30/payment-fraud-bec-attacks/