Citi PERSPECTIVES

Innovation

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CONTENTS

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Citi's Roadmap for the Digital Era

The economic, business and financial world is evolving at an extraordinary pace. An uncertain and uneven economic outlook, the structural shift towards emerging markets as a driver of global growth, and increased regulation are changing the operating environment for companies around the globe. As a result, finance and treasury professionals face working capital, liquidity and supply chain challenges as they work to meet their corporate objectives.

At the same time, the role of corporate treasurers has changed significantly in the post-crisis era. Treasury is a critical partner to the commercial business helping create enterprise-wide value and managing counterparty, FX and other risks for their firms. As firms restructure to meet the needs of the changing global marketplace, treasurers are increasingly partnering with the business to re-engineer their departments to create more value for the firm.

The combination of accelerating globalization, the lingering effects of the financial crisis and the ever-increasing responsibilities of the treasury create a formidable workload and an unprecedented challenge for every treasurer. However, help is at hand: rapid advances in technology can play a central role in helping to manage risk, improve visibility and control, enhance flexibility and increase efficiency. Overall Citi's strategy is well aligned with three dominant, long-term secular trends: globalization; urbanization; and digitization.

Meeting changing needs

In this issue of *Perspectives*, we explore how innovation is playing a crucial role in helping the treasury to reconfigure its structures and global processes to meet changing operational needs and a fast-moving economic, financial and regulatory environment.

Citi's objective is to help clients use technology to adapt their operating and treasury models to the changes underway so that they can embrace the opportunities available. Our global footprint, local expertise and strong reputation for technology innovation mean we are perfectly positioned to deliver technology-driven solutions that reflect the broadening role of treasurers and the challenges they face.

For example, by digitizing paper-based processes, costs can be cut, efficiency increased and working capital can be enhanced. Technology has now become sufficiently secure and mature for digitization of receivables to be a realistic goal. By using digital receivables channels for their end customers, companies can kick-start a dramatic change in how they manage their day sales outstanding, a key working capital metric.

Meanwhile, payment methods and channels in the USA are also changing — though the trends are different for the consumer-to-business (C2B) market and the business-to-business (B2B) markets. While the C2B market has rapidly embraced digital commerce, because of the convenience of mobile technology, home banking channels and Direct Debit ACH, corporates have been slower to embrace digitization.

Elsewhere in this issue, we look at intelligent liquidity management, which combines cash aggregation and pooling with newer tools like data analytics. How precious information is used is changing as data analysis improves and storage costs fall. Analytics has the potential to change how finance and treasury professionals think about their liquidity by delivering insights — based on detailed, real-time information — that enable informed decision-making.

Our commitment to innovation

Citi Treasury and Trade Solutions is committed to investing in innovative technologies for its clients. We focus on delivering innovations that deliver best-in-class products and services which offer clear commercial benefits and competitive advantage, and align with clients' needs and evolving business models. However, innovation at Citi is also about day-to-day improvements and re-engineering efforts to improve the efficiency and usability of existing product and platforms.

Innovation for us is simply about creating something new — whether an entirely new tool that takes transaction services into the future or an incremental upgrade that maintains the competitiveness of our core offerings. Our motivation to innovate remains the same: Everything we do is entirely driven by our clients' needs and aspirations to transform their treasury supply chain activities.

We hope this edition of *Perspectives* brings to your attention some innovations that we believe can add value to your business. These articles are intended to provoke debate and as always, we'd be delighted to get your feedback and discuss how the issues raised affect your business and how Citi can use its industry-leading technology and infrastructure to help you achieve your goals.

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VISIBILITY AND CONTROL FOR EFFECTIVE CASH MANAGEMENT

Globalization, economic uncertainty and regulatory reforms are prompting companies to rethink their operating models. As a result, full visibility into credit and debit flows is becoming a prerequisite for effective cash management and improved financial control.

The way companies do business is changing in response to the evolution of the business and as a result of the technological, economic and regulatory environment. Advances in digital payments are breaking traditional business boundaries and resulting in the evolution of new business models, client needs and a different technology environment. A new competitive dynamic has emerged that makes product and service differentiation – and while maintaining margins and using complex supply chains – a major challenge.

At the same time, the ongoing eurozone crisis, low interest rates and devaluation of currencies are creating an uncertain global economy that has a direct impact on the profitability and balance sheets of organizations. A sluggish global economy and weakening conditions in developed markets are offsetting the growth potential of globalization. Consequently, it is important for organizations to be vigilant and manage exposure. Meanwhile, the tightening of regulatory controls around the world is resulting in the need for increased transparency, verification of receivables and payment flows, and revenue accountability across businesses and geographies. The fast-changing landscape means that a holistic approach is required to optimize working capital.

Improving visibility

The first step to enable companies to deal effectively with the many challenges they face is to improve visibility and control across their order-to-cash/procure-to-pay cycle. However, improving visibility is often difficult. Many companies are taking advantage of globalization by outsourcing certain functions to cost effective regions, or setting up shared service centers. Multinational corporations tend to have a complex cash management ecosystem across different payment methods and geographies. In addition, corporates often have to deal with inconsistent message formats associated with payment and receivable transactions from different countries, channels and instruments and fragmented data and access points for reporting.

Another common problem is inconsistent remittance data elements for different instruments, which increases overheads associated


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Just as standardized data is essential to improve visibility, so visibility is crucial to improve control

with exception management and makes straight-through reconciliation and cash application a challenge. For example, an organization accepting ATM payments and over-the-counter (OTC) convenience store payments in Taiwan has to support highly diverse funds, information, and reconciliation workflow. Receivables via ATM payments are posted in the organization's bank account as individual transactions, settle the same day, and can be reconciled straight through, from both cash and an accounts receivables perspective, against the order number or payer account number. In contrast, OTC cash payments are settled in bulk, typically as long as 10 days after the payer completes the transaction, and cash reconciliation against open invoices or order is more complex.

Many of the visibility-related problems faced by treasurers are a result of antiquated technology infrastructure and processes. Often they depend on spreadsheets collated from different business units in different countries to manage cash flow. A recent survey showed that visibility over cash and financial risk exposures is ranked as the biggest pain point by 36% of respondents.[1] For treasurers, the challenge is straightforward: If something cannot be seen, it cannot be measured and therefore it cannot be effectively managed. However, visibility can be improved by adoption of some best practices and taking advantage of accelerated technology evolution.

Standardization is critical

While many of the macro challenges facing companies are complex and change rapidly, it is possible for companies to achieve visibility and control of their payments and receivables by focusing on some key best practices. Standardization of data must be at the heart of any effort to improve visibility and control. Without data standardization, there is no way to gain consolidated access or a unified view across variables like multiple markets, business units, accounts, instruments and channels.

Achieving standardization is especially challenging as companies accelerate their expansion into new countries (especially in emerging markets) or grow by acquisition. It can take several years to consolidate an enterprise resource planning (ERP) system in a new territory or business unit. That limits growing companies' potential for standardization. Companies' partner banks can play an important role in absorbing the complexity and providing value-added information management and reporting services. Banks can also provide value-added services associated with financial flows, complementing ERP implementation at group or headquarters level.

ISO XML 20022 and SEPA are creating opportunities to increase efficiencies in bank and corporate interaction by standardizing the exchange of account and credit/debit transaction information. Standardization provides a strong foundation for organizations to centralize common functions, increase automation and gain efficiencies.

Strengthening compliance by making data actionable

Just as standardized data is essential to improve visibility, so visibility is crucial to improve control. Every company generates huge quantities of data. However, for effective management, the information must be:

- **Actionable** – user-friendly, meaningful presentation is necessary for decision making.
- **Context driven** – to cater to multiple stakeholders that require different views of data: while a customer service representative or account reconciliation professional needs to see specific transactions, the credit team or treasurer needs a higher level of visibility, with flexibility to drill down to information that is more granular.
- **Dynamic** – providing ability to view different cuts of data in real-time, navigate quickly from high-level summary information to the lowest level of transaction details, including scanned images of checks, for example.
- **Accurate** – It is critical that different business units and functional groups access the same underlying data: there must be a single version of the truth
- **Universal** – For companies, the uncertain economic environment and other macro challenges means an increased need for an integrated, consolidated view of their day-to-day payments and receivables flows, not just an end-of-day, single point in time view of account balances.

Digitization for strategic transformation

Technological innovation and digitization provide additional value in achieving visibility and control goals and increase automation.

For receivables, corporations can improve visibility and control by adopting electronic invoice and payment, as well as accelerate collection while providing more convenient anytime/anywhere payment options to payers.

New channels and payment methods require investment and resource commitment and can prove disruptive in the short term. However, in the medium- and long-term, digitization improves efficiency, lowers costs and transform corporates' visibility and control of payments and receivables while enhancing security and risk management and making it easier to comply with changing regulations.

Benefits of best practices adoption

Improving exceptions management and process optimization

One common pain point for corporate is exception management: exceptions such as returns and rejects may trap cash and affect the profitability of an organization. Exceptions happen for a variety of reasons, including partial payments, single payment for multiple invoices, incomplete, incorrect or missing remittance information and multiple data formats. Exception codes also vary by geography and instrument, and require significant manual research and telephone calls to trace the point of origin, and understand the reason for exceptions.

Exceptions can be reduced by standardization and improving visibility. With improved visibility, clients can gain actionable information to identify top exception reasons by account and business unit, as well as perform payer behavior analysis. Using technology tools such as online workflow, rules-based routing, automated alerts, collaboration, and virtual accounts, exception management can be transformed.

While solutions such as virtual accounts or account receivables matching can be used to reduce exceptions, they do not eliminate them. Organizations need to incorporate online exception management tools to allow AR personnel to repair or enrich transactions based on entitlements. The underlying technology must be flexible to support configurable workflow (setting out who can do what in terms of repairs or returns, and to which accounts or transactions) and provide audit trails.

Breaking silos and improving collaboration

Technology can also be used to improve collaboration within companies in order to enhance visibility and control of payments and receivables. In a typical organization, multiple individuals or teams are involved in AR/AP processing. By providing support for collaborative tools, the ability to share reports and notes with peers can be improved, leading to greater transparency, improved efficiency and enhanced risk management.

Standardizing policy and governance

AR/AP technology is essential to both improve visibility into global data flows and assist in making that data actionable. However, technology can only act as an enabler. Organizations must be willing to take the acumen derived and translate it into meaningful initiatives to standardize policy across business units and revenue lines to support strategic payment methods and channels, increase straight through processing and working capital. For example, a large municipal agency identified that the relative cost of each in person payment at a service center location could be up to 400% higher than bank provided Online Bill Pay. Electronic bill payments are not only more cost-effective, they also have lower exception rates. The exception rates associated with receiving payments over electronic channels are estimated to be around 0.58% compared to 7.13% for walk-in/paper channels.[2] Policy can be consequently changed to favor the use of electronic channels and bank-provided online bill payments. Similarly, visibility and workflow automation can be used to streamline exception processing and reduce exception handling cost by up to 45%.

Equally, corporates must develop guidance for promoting policies and reducing risk activities. They must also clearly define a governance structure for delivering process efficiencies and cost reductions and managing key performance indicators across business units.

Optimizing working capital through visibility in today's dynamic environment requires a holistic approach focused on standardization of data, using technological tools to make that data actionable and digitization of the payments and receivables lifecycle. Companies and their global treasury departments can then utilize the insights derived from these efforts to better manage exception processing for faster cash application, break historical silos and improve policy standardization and governance procedures.

Visibility is simply a foundation: It is policy and governance that improves control. To achieve that control, and to enhance visibility across the order-to-cash/procure-to-pay cycle, treasurers need to be playing a broader role within the business. By being involved in the multiple payments and receivables processes that take place across the business, treasurers can ensure that the actions of all departments and business units are aligned to help the company achieve its strategic goals in changing times.

Citi offers innovative payments and receivables products that deliver consolidation and visibility across borders. Citi's holistic end-to-end approach to payments solutions supports both incoming and outgoing payments. Citi utilizes its unparalleled global network and best-of-breed technology to provide clients with actionable intelligence that enables them to strategically manage cash forecasts and market risks, and improve control. Moreover, by supporting its clients across the payments spectrum with intuitive cash management tools, reporting, and analytics, Citi is able to offer its superior client service.

[1] Source: Deloitte Treasury Strategy and Operations Survey, conducted jointly with gtnews, July 2012

[2] Blueflame Consulting – Exception benchmarking study

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TABLETS SHAPE A NEW ERA OF BANKING AND CASH MANAGEMENT

Over the millennia, tablets in various forms have revolutionized communications and commerce. Now, the 21st century's electronic tablets are redefining how business is transacted and business decisions are made.

During the Bronze Age, tablets of clay were used to record trade transactions and daily events. In subsequent millennia, papyrus, parchment and paper evolved as more practical media, even though paper tablets as we know them were not created until the end of the 19th century industrial revolution.

Now, as part of a digital revolution, paper pads are quickly giving way to an array of electronic devices, including a 21st century version of the tablet. These slim touch-screen pads, which can provide anytime, anywhere access to people and information, have evolved from innovations in computing, telecommunications, and networking over the better part of a century.

"Must-have" technology

Today mobile devices are "must have" accessories for on-the-go executives and even heads of state. Barack Obama fought hard to keep his Blackberry® when he was elected president. Now, an Apple iPad®, used to review staff reports and stay plugged into the world outside the White House, can be spotted on his desk or under his arm as he boards Air Force One.

Consumers, generally speaking, have been quicker than businesses to incorporate new mobile devices into their daily routines. However, many technology experts agree that today's business executives are determined not to make the same mistake with tablets as they did with smart phones, which were initially dismissed as expensive toys.

With six out of ten global executives now using tablets according to a recent Doremus/*Financial Times* poll, some analysts say that tablets could become executives' primary computing device.

Executive computing preferences aside, one thing is clear: A mobile device explosion is underway. Tablets have gone main stream and show no signs of stopping. Gartner, an industry research firm, estimates that tablet sales will outnumber PC sales by 2015, which may further support the notion that executives, and tablet users in general, are likely to transfer their personal affinity for tablets to their workplace.

Merging consumer and business habits

From legacy technologies to new technologies, few industries have harnessed technology as aggressively or successfully as financial services. A vast interconnected electronic network of correspondent banks, clearinghouses, and payment systems worldwide processes trillions of transactions a day. Internet connectivity fueled electronic banking's emergence as the "new normal" for businesses and, increasingly, consumers.

Corporate banking portals, introduced just over a decade ago, have moved far beyond providing access to basic account information and transaction capabilities. CitiDirect BE℠, for example, provides a single window for services that span cash management, payments, trade, supply chain finance and liquidity management, for instance. It also yields quick access to detailed and consolidated transaction and account data, plus tools for analyzing that data. As such, it serves a wide range of treasury and finance staff – from the data reporting needs of analysts and managers to the strategic cash management, forecasting and risk-mitigation responsibilities of more senior executives.

Going mobile

Banks, in response to the proliferation of mobile devices have been rolling out mobile banking

Informed executives realize that tablets, like smartphones, are more than a glitzy toy

options for both consumers and businesses in recent years, although corporate offerings typically lag somewhat behind consumer sites. A June 2013 report by Aite Group revealed that only 37% of the financial institutions it surveyed were live with mobile offerings for corporate clients. Among them, the tendency has been to focus on smart phones first, then tablets.

One reason for the difference in pace is that businesses' requirements and expectations are significantly different from those of consumers. Another is that the devices themselves present certain development challenges. There also are security considerations. Businesses expect mobile security to mirror that of their enterprise environment.

Solutions that fit the device – and their users

Some financial institutions, when going mobile, try to simply emulate the online banking experience on a mobile device. Citi's strategy, on the other hand, is to offer only the specific functionality that users want when they are away from their offices and to develop applications tailored to the type of device.

Citi's research shows that users do not crave the full functionality of an online banking platform on their mobile devices for a variety of reasons. "Must have" mobile features, according to the research, include, for example, the ability to perform activities such as accessing account balances and the status of transactions, authorizing and releasing payments, initiating pre-formatted payments for domestic and international funds transfers, and receiving event notifications.

Actionable data at the tap of a screen

Smart phones and tablets demand different application-development models and present different opportunities for customizing the user experience.

The small screen size of cell phones, for example, makes navigation trickier and provides limited information visualization. Tablets, unlike mobile phones or even PCs, create a more immersive experience.

Simply "dumping" a mobile phone application on a tablet can degrade the overall experience and fail to leverage the unique information presentation and multi-media capabilities of tablets. Tablets present the chance to engineer a distinctly new banking experience that replicates the interactive appeal of successful consumer apps and differs significantly from that of mobile phones and even PCs.

New cash management models

Online banking experiences may differ somewhat on PCs, mobile phones and tablets; however, combined they are shaping whole new models of communication and cash management among treasury staff and senior executives.

Take, for instance, a major corporation that uses an online banking portal such as CitiDirect BE to manage accounts and transactions globally. A financial clerk in Singapore can enter into CitiDirect BE a series of payments for the purchase of heavy machinery in Australia and submit them for approval to the regional treasurer in Hong Kong. The treasurer while on a business trip to India can review and authorize the payments using a mobile phone, only hours after they are entered. Meanwhile, it's morning in London, where the CFO is preparing for the CEO's weekly management meeting. From the boardroom, the CFO can use CitiDirect BE℠ Tablet to quickly check the company's global cash position and see that the series of payments have just been made in Australia. With a few taps, the CFO can drill down on a map or graph to see the resulting balances and then subsequently confirm the execution of the company's strategy at the meeting.

It's hard to believe that today's executive can simply touch the screen of a banking application on an electronic tablet to get answers, almost instantaneously, to questions about market positions, currency risk, funding sources and operating needs, across virtually every part of the globe. It took more than 1,000 years for the technology of papermaking, which could be considered the disruptive innovation of its millennium, to travel from China to Europe.

Admittedly, business applications for tablets are in their infancy but, like the sales of tablets themselves, they are quickly on the rise.

Informed executives realize that tablets, like smartphones, are more than a glitzy toy. They are powerful tools that can transform how they monitor and manage their businesses and make decisions, providing easy and quick access to mission-critical information

[1] 2013 "Decisions Dynamics" survey of Doremus and Financial Times

[2] "Forecast: Devices by Operating System and User Type, Worldwide, 2010-2017, 1Q13 Update", Gartner, March 28, 2013

[3] "The Corporate Portal Strategies of Large Banks Around the Globe," Aite Group LLC, June 2013

FINDING THE MIDDLE GROUND IN CENTRALIZATION: TREASURY MANAGEMENT FOR LARGE CAPS


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The growth of consumer and supplier base in emerging markets has dramatically changed the business mix of large companies. With 50%-65% of revenues already coming in from offshore operations and future growth expected from untapped markets like Africa and consumer behemoths like BRIC, Treasuries are faced with a complex mix of challenges; supporting business expansion while ensuring financial efficiency, balance sheet stability, controls and risk mitigation. This is leading to a new way of centralization, with equal emphasis on global and local dynamics.

A brave new world: Drivers for an evolving global strategy

For companies in the western hemisphere, globalization is nothing new. US multinationals have been operating for decades in diverse global markets and over the years have developed treasury strategies to meet evolving needs of business. So what is driving these companies to review their treasury strategy? Here are some of the key factors:

Beyond the horizon – moving past BRIC and emerging markets: As global business increases, emerging and frontier markets represent new customers and suppliers, with goods and services flowing in complex matrices. Moving beyond the "emerging markets" and BRIC, key growth opportunities now lie in Africa, and heretofore underdeveloped but populous markets in Asia and Eastern Europe.

Citi Research predicts that by 2030 and 2050 respectively, 58% and 68% of world GDP will come from developing markets. This means more countries, more currencies, more regulations and more risks. World class treasuries must prepare for this changed marketplace by revisiting their current strategies, specifically with an eye to retaining control while providing enough legroom for business to flourish.

Changed scorecard: Many treasurers point to changes in their mandate post financial crisis. The treasurer scorecard has expanded beyond mainly capital raising to one of partnering with business/tax in re-engineering the operating model, managing an escalated regulatory environment and preserving capital. In measuring against this changed scorecard, treasurers find the need for greater collaboration with other key stakeholders and aligning treasury centralization strategies with broader enterprise level strategies.

New financial giants: The gravitation of trade flow to newer markets is leading to formidable local balance sheets; some examples are China, Brazil, Indonesia, India and Japan. This is requiring super-large companies to re-think how they organize their resources, liquidity and infrastructure.

Banking environment: The financial crisis has led companies to focus on aligning fee business with core credit banks as well as managing counterparty bank risks. This is leading to both consolidation as well as liquidation of bank relationships. Simultaneously, improvements in global banking infrastructure are lending new opportunities for further efficiency. The implementation of SEPA in the Eurozone, tools like eBAM and standards like SWIFT XML are all proving to be catalysts for a new type of centralization.

Regulatory upheaval: On the home front, treasurers are challenged to keep up with evolving regulatory framework, ranging from direct impacts of Dodd Frank to indirect impact of Basel III. But more importantly, Treasuries are facing steep learning curves as business expands to frontier markets such as Africa where financial regulations and practices are less defined and are frequently subject to interpretation. How do they affect a treasury's ability to provide capital, manage liquidity and cap risks? These are the questions on the minds of many treasurers today.

These drivers are very real for large multinationals in developed markets; but they can also be equally relevant to growth companies as they globalize at a much faster pace than their veteran counterparts.

Five Recommendations for Treasurers of Large-Cap Companies

1. Rethink treasury organization structure

Since the 90's, global treasuries have achieved efficiencies by centralizing along four key regions – the Americas, LATAM, Asia Pacific and EMEA. However, the forces outlined above are driving the best-in-class to boldly realign their resources, resulting in "sub-regionalization" of the globe. Key markets like China, India, Brazil, Eastern Europe and Africa are being redefined as separate regions. There are several advantages; a more direct alignment between global treasury and these key growth markets, improved relations with local regulators, implementation of more market relevant strategies for capital and liquidity, and lastly, an opportunity to spread risks and wallets within the relationship bank group.

Within a well defined policy and governance structure, this provides greater flexibility to geographies in capital raising in local currency and managing foreign exchange exposures, investments and bank relationships.

2. Review policies and governance
Sub-regionalization must be paired with tighter policies and governance, particularly for newer regional centers and riskier markets. Prudency calls for review of existing policies on investments, foreign exchange, bank accounts administration, delegation of authority and counterparty risk management. Internal reporting and audit processes need to be reviewed as well. Lastly, global implementation of key technology infrastructure — such as single-instance ERP system and treasury workstation — become imperative to achieve transparency, control and uniformity in execution.

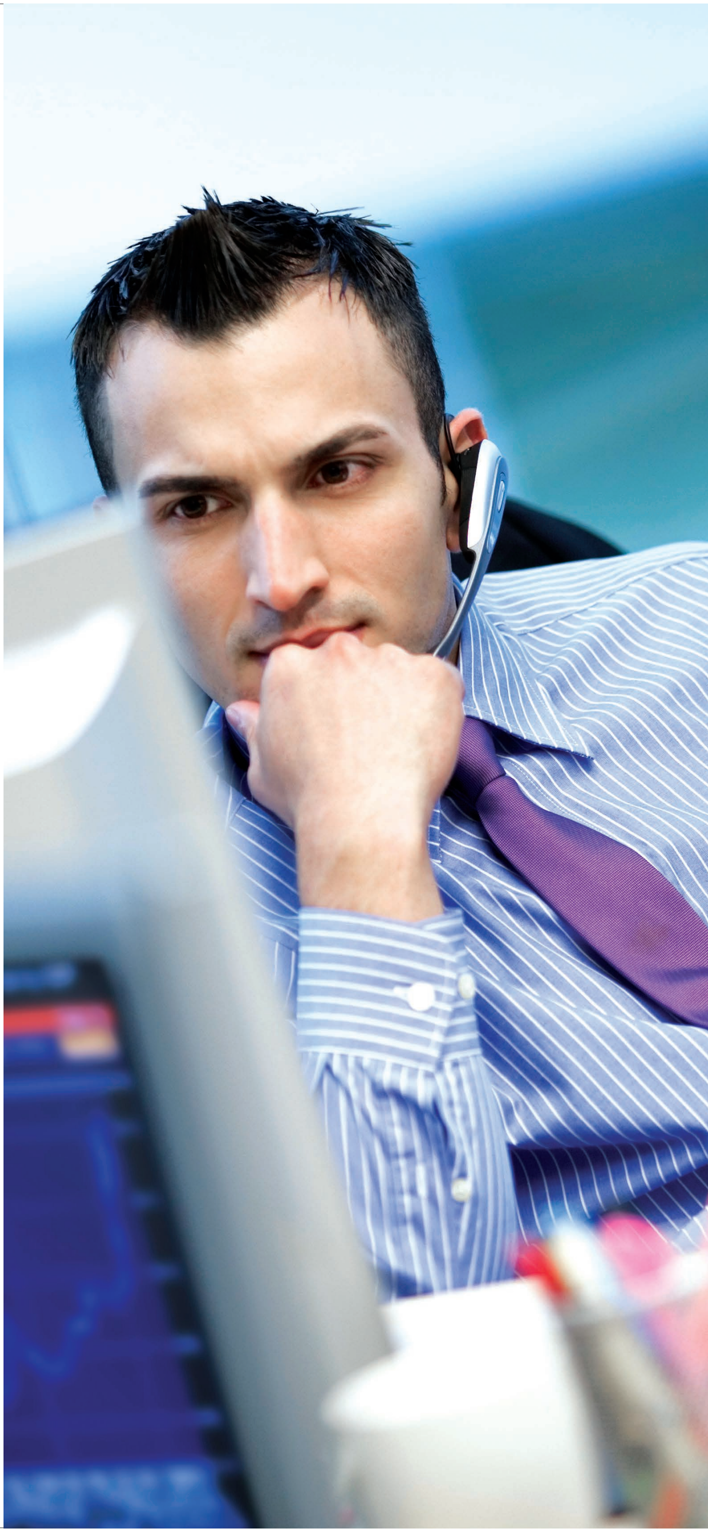
3. Re-think liquidity management, driven by currency strategy:
Liquidity structures in many global treasuries have traditionally been aligned by regions, and select companies have implemented multi-currency overlay structures that have worked well in the past. These need to be reviewed in the backdrop of a low interest rate environment in open markets, emerging markets where a large amount of cash is trapped and growth markets where capital injection is a one-way street for the foreseeable future. With a greater percentage of generated cash ineligible to participate in the overlay and poor yields on header currencies (mainly G3), the legacy structures may not provide intended benefits. Hence treasuries should re-think liquidity, with currency strategy as the key guiding principle. This may mean a deliberate and calculated misalignment between regional organizational structure and underlying banking and liquidity structure. It calls for concentration of cash by key currencies agnostic to regional organization structure, complemented by greater active management of currency positions, and deployment of multicurrency solutions after careful reassessment of benefits.

4. Further centralize, standardize and automate Transaction Processing
The key third element of a successful centralization strategy is global uniformity in execution of transactions. Several factors pave the way for greater efficiency – implementation of Single Euro Payments Area in the Eurozone, lower entry cost of SWIFT and better services from banks. Once again, transaction processing strategy needs to be reviewed with a strong global outlook, not necessarily in alignment with the underlying regional treasury structure. Global shared services center, global implementation of SWIFT XML 20022 are key examples.

5. Invest in a global workforce

Lastly, a globalized treasury workforce is essential to effective execution of the Treasurer's vision. Talent acquisition in regions is already a major challenge for most companies, especially at a senior treasury level. This is prompting best-in-class companies to encourage global mobility, diversifying responsibilities and in some cases, seconding key treasury personnel to business units. After all, talent will be the main differentiator between world-class treasuries and those that lag behind.

Finding the middle ground in centralization requires striking a balance between global and local dynamics and is a multi-year, evolutionary effort. It means clear cut global policy and governance, regionalization that allows legroom for markets, and efficient, low-cost transaction operations. Treasuries that achieve this elevate themselves from being a service provider to the business, to being a catalyst of sustainable growth for the enterprise.



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HARNESSING THE DIGITAL REVOLUTION

We are living in the digital age. By the end of 2013, there will be more internet-connected mobile devices, such as smartphones and tablets, than people globally[1] while LinkedIn now has more than 200 million active users. Successful companies are leading this revolution and embracing the business opportunities it offers. By 2016, e-commerce in the G20 economies will reach $4.2 trillion[2].

Digitization also has the potential to change how companies manage their treasury operations. By reducing paperwork and increasing automation, it can improve efficiency and enable companies to adapt in a fast-moving world. Developments such as mobile access to services can make corporates more agile and responsive and improve productivity by allowing information to be accessed from any location. Moreover, by improving visibility and control, digital can play a crucial role in enhancing risk management.

In addition to the business and efficiency benefits of digitization, the move towards digital is being driven by treasury staff that use smartphones and tablets daily for communication and entertainment in their personal lives. They have similar expectations for how they use technology in their professional lives. Consequently, there is a growing demand for improved availability, greater choice, better self-service functionality, enhanced convenience, and increased speed in treasury technology.

Commercial cards leverage digital technology to offer corporates the opportunity to improve their payments processes associated with travel and entertainment expenses and purchasing. By using cutting-edge payment tools and platforms, digital offers a cost effective way for companies to optimize integration, efficiency and control so they can achieve their strategic financial objectives.

Citi constantly seeks to understand the impact of major changes in the economic, financial, regulatory, operating and treasury environment on its clients through the Citi Client Advisory Board and Client Conferences. Recent discussions, which focused on what digitization means to organizations and their employees' business lives, as well as which capabilities add value, highlighted the following five themes:

1. Digital improves availability

Corporates want to become less dependent on rigid, bank-determined timeframes. Instead, they want 24/7 access to accurate information from anywhere in the world so that they can improve the efficiency of their processes and can perform business-related transactions anytime, anywhere. Digital also offers a unique opportunity for commercial cardholders who are often traveling. Now they can manage their accounts wherever they are, at a time that is convenient for them.

For example, CitiManager Mobile gives users a mobile-optimized version of the CitiManager desktop portal, Citi's state-of-the-art expense and account management tool. With the CitiManager Mobile site, Citi corporate cardholders can view their accounts, past statements, search transactions and amend their profile. The solution is accessible from multiple device types, including iPhone, Windows, Android, and Blackberry. Moreover, it is flexible and available in 22 languages in over 50 countries.

2. Greater choices

Companies want to use digitization to improve the range of choices open to them. Digital solutions enable real-time, multiple channel access using the internet or mobile. Users can pull commercial card account information at any time – when they are in the office, in a taxi or waiting at the airport – and in a manner that is convenient to them.

Alternatively, information can be pushed to users based on their preferences and needs. For example, users can be made aware of, and kept up to date on, items important to them by creating interactive alerts, which are simple to set up or amend using CitiManager. Users can choose from 35 different email and SMS alerts in 15 languages, including notifications for the availability of a statement or when a replacement commercial card has been dispatched. Alerts can also offer improved fraud management by rapidly highlighting unusual account activity.

3. Enabling self-service

Feedback from Citi's corporate clients shows an increased interest among program administrators and cardholders to manage their commercial card accounts themselves. Digitization offers a revolution in ease of use by putting self-service at the heart of the user experience.

The digital commercial card environment offers self-service at any time of the day for straightforward online maintenance of accounts and details, with real-time updates. A card administrator no longer has to wait hours to increase the CEO's card limit – action can be taken immediately. Moreover, improved self-service means that commercial cards can be more easily integrated into expense management systems.

CitiManager gives users a mobile-optimized version of the CItiManager destop portal, Citi's state-of-the-art tool.

4. Enhanced convenience

Commercial cards offer cardholders greater convenience because they make the process simpler. By using digital, cardholders gain faster access to funds and a broader range of payment choices.

The combination of commercial cards and digital also improves convenience for corporates because it offers a more efficient, cost-effective solution compared to cash, paper vouchers and checks. It also facilitates back-end real-time digital enhancements that enrich clients' experiences and allow better integration with banks. By taking data straight from users' ERP system, there is no need to re-key information. As a result, digital helps companies to achieve their goals of streamlined processes, greater efficiency, reduced costs and easier reconciliation.

5. Faster solutions

Companies want electronic payment solutions that accelerate their process efficiencies and improve transaction controls. One way of meeting this need for increased speed is through Virtual Card Accounts, which complement an organization's existing commercial card program or can be used as a standalone solution to streamline purchasing for large ticket items.

Virtual Card Accounts are a secure, electronic solution for post-invoice payments and card-not-present transactions made via the internet, phone, or mail order.

Virtual cards work by generating unique virtual credit card numbers that automate payments, streamline reconciliation and save time. They allow client administrators to set controls based on default criteria or to adjust them at any time. Authorization controls define transaction limits, such as single or multiple use, individual and aggregate transaction amounts, date and time ranges and individual merchant or merchant group for each virtual card based on specific requirements. As well as being instantly available, virtual cards offer increased security, greater flexibility, robust data protection, effective payment controls, extensive reference data and sophisticated flow capture.

Meeting future needs

Companies are embracing digitization in their operating models and treasury structures because of the huge possibilities it offers. Digital is now a necessity for companies to survive and grow in an increasingly competitive world – it is not just a value add.

For treasury, digital offers unique opportunities. Using commercial cards, corporates have an opportunity to leverage digitization and drive innovation across the value chain. Digital offers a way to improve convenience for cardholders and program administrators. By eliminating cash, paper checks and postal vouchers, labor-intensive processes and the costly systems needed to produce, distribute and manage payments can be streamlined. Ultimately, digital – by powering commercial cards – provides faster, more efficient payments while also giving recipients flexible and secure access to their funds.

[1] Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2012–2017, February 6, 2013

[2] The Internet Economy in the G20, Boston Consulting Group, March 19, 2012

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DIGITAL DELIVERS FOR PAYMENTS AND RECEIVABLES

Companies in both developed and emerging markets are benefitting from a move to digital payments and receivables. Has your firm made the switch?

The world has gone digital. By the end of the year, there will be more internet-connected mobile devices, such as smartphones and tablets, than people globally. Internet penetration is now an average 34.3% worldwide – a 566.4% increase since 2000. Consequently, e-commerce is booming: By 2016, the internet economy will reach $4.2 trillion in the G20 economies.

Companies are now looking to digital technologies to transform their supply chains. The processes required to enable corporations to collect from their clients and pay their suppliers can be enormously complex. As a result, while some parts of corporates' payments and receivables processes have moved to electronic methods in the past decade, many remain paper-based, inefficient and expensive to process.

While digitization has been taking place for the past decade, rapidly falling data storage and hardware costs, and maturing technologies that are scalable to meet companies' needs are now making it easier for corporates to leverage new technology and banking structures. As a result, digitization has the potential to transform both electronic and paper-based processes by cutting costs, increasing efficiency, and accelerating the continuum of value to enhance working capital. Companies can access detailed analytics that improve transparency around their payments and receivables to enable informed decision-making.

At the same time, digitization offers simplified and direct access to foreign currencies that can expand corporations' reach and opportunities. Digitization is also changing the way that corporates sell. Companies can leverage digital collections channels to dis-intermediate and collapse the sales chain, enabling them to get closer to the end customer. Now is the time to seize the many opportunities that digital offers.

The impact on receivables

Collecting cash from customers requires a huge number of processes and inter-linkages. The journey from issuing a purchase order to collecting cash involves company departments and processes ranging from sales, billing, finance and receivables to technology and operations. No single department, such as the treasury, typically controls all of these stages and consequently visibility across the chain can be poor.

To change receivables processes requires buy-in and consensus from multiple parts of the business, which often have differing objectives. To compound the challenge, any improvement in receivables requires the end customer to be willing to change how they pay.

Given the enormous barriers to change, receivables are usually the least technologically sophisticated part of corporates' supply chain. Therefore, they have received relatively little investment to improve automation or efficiency compared to other parts of the supply chain. As a result, receivables are often problematic for companies and require significant manual processing work.

While the challenges associated with receivables are not to be underestimated, the low baseline and limited improvements in recent years mean that the digitization of receivables processing offers the greatest opportunities. Digitization can eliminate manual paper-based processes, improving efficiency and lowering costs (an added benefit is the enhancement of a company's environmental credentials by reducing waste).

Digitization of receivables is now possible because digital technology — most of which has originated in consumer markets — has matured, becoming more secure and stable. There are now digital products spanning the full order to cash cycle.

Receivables are inevitably more efficient if they begin as a digital process. By enabling access to digital receivables channels for their end customers, companies can kick-start a dramatic change in their receivables handling. For example, a mobile check deposit product, which takes a photo of a check when it is received and begins processing immediately, is invaluable for traveling salesmen. This product is now available in markets where check truncation laws are already in place, such as the US, and is being deployed in other countries.

Similarly, mobile receivables solutions that use payment by a cellphone as a cash alternative make it easier for suppliers to collect from neighborhood stores. Uptake has been rapid in emerging markets that have high cash usage. Meanwhile, e-commerce solutions can allow companies to expand and improve their internet sales by offering collections in local currencies rather than hard currencies, potentially opening up new markets. This is particularly advantageous for companies that sell digital goods such as software and music, as it gives new consumers access to their products at little additional cost.

Other solutions such as e-billing and e-invoicing are still at a more nascent stage of their development but offer the potential to digitize the entire receivables process. Such tools also enable easier use of matching and reconciliation technologies (such as virtual accounts, which allow a company's end customers to pay to a local virtual account number. Funds are ultimately collected in a centralized operating account with a unique identifier, enabling easier automatic reconciliation).

The impact on payments

Many corporate payment processes are technologically sophisticated compared to receivables. Moreover, many of the benefits that digital delivers for receivables are also benefits for payments, given that companies both make and receive payments.

However, digital can deliver some unique improvements for payments. For example, cheap and almost unlimited data storage and processing capabilities allow companies to capture, store and perform complex analyses on the huge volumes of payments data they generate. As a result, transparency can be improved and decision-making can become a better informed process. For a decentralized treasury, such analytics offer a way to ensure visibility of cash across the business, understand what returns are earned, and highlight ways to improve them.

Analytics can be used to enable companies to optimize how they make payments by constantly analyzing payment patterns and requirements and matching them with the lowest cost suitable payment options. Payments analytics with drill-down dashboards can improve efficiency and control in organizations with disparate treasury operations. This value-added solution is now available in select markets in Asia and is being deployed in other countries.

Leveraging digital technology for payments can drive tangible economic results. Working capital can be optimized by analyzing and tightly managing days payable outstanding and supplier payment terms. Digitization reduces reliance on manual processes and therefore the margin allowed for errors. As a result, it enables resources to be re-deployed to higher margin activities.

Data analytics also has an important role to play in meeting ever more stringent compliance requirements and managing risk effectively. For example, while digitization of the financial environment is creating myriad benefits, it also makes large-scale fraud easier. Fortunately, analytics and robust and thorough surveillance software can be put to work to locate intra-company fraud wherever it may occur.

The increasing use of mobile technology in the treasury for initiating and authorizing payments improves convenience and enables active management of payments without being tied to a physical office – it is becoming a must-have for companies with operations outside of their headquarters. In developed markets, the ability to authorize payments via mobile phone increases productivity. In emerging markets, such solutions allow companies to use technology that may be inaccessible on fixed line broadband due to poor telecom infrastructure.

Corporates with FX needs are also benefitting from payments digitization. Digital FX and cross-currency solutions offer companies the ability to make payments in over 130 currencies, without needing an account in that currency. In some emerging markets, corporates can access active FX rates electronically when payment takes place. For more developed markets, passive bench rates enable cross-currency payments and hedging. Digital offers important advantages for companies that operate globally but for reasons of scale cannot be on the ground in every country where they do business. As a result, the marketplace can become truly borderless.

Different impacts for different markets

Digital has something to offer almost every company in every location. However, internet penetration and the use of digital devices vary significantly around the world – just 15.6% of Africans are online compared to 78.6% of North Americans. Moreover, the different characteristics of emerging and developed markets can mean that different technologies are deployed in different ways.

For example, in developing markets technology is often deployed to enable financial inclusion, reduce costs, and change the way consumers (and businesses) make payments in countries without a well-developed banking sector. The best known such example is M-Pesa, which was initially developed for use in Kenya. It allows users to transfer money via a mobile device without needing a bank account. Similar solutions are now available in many other emerging markets such as China, India and Thailand.

For corporates in developed countries, the focus of new technologies – such as P2P payments and NFC, or tap and go, technology – is necessarily different. Often many of the benefits of digital for developed market companies are tied to macro trends. Given a weak outlook for growth, the importance of improving efficiency, maintaining visibility and control, and lowering costs has been reinforced. Digitization offers a clear, proven way to achieve such objectives.

Digital can also be an enabler for both developed and emerging markets companies to grow outside their home market. It offers a way to sell products and services more broadly without costly expansion overseas. Similarly, cross-currency payment capabilities can simplify FX for fast-growing companies and allow them to transact in countries that would be otherwise hard to reach. Smartphones and

Digitization has the potential to transform both electronic and paper-based processes by cutting costs, increasing efficiency, and accelerating the continuum of value to enhance working capital


9:30 AM
MOBILE BANKING
Available Balance
$12,395.25
My Checking
Available Balance
$2,739.84
My Savings
Available Balance
$1,968.48
Money Market
Available Balance
$3,247.06
Platinum Card
Current Balance
$2,981.52
Processing
Transfer From ACCT #0342
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Last Transaction
25 Sep 2012 14:15 (CET)
$925.00
HELP
LOGOUT
1 QZ
2 ABC
3
4 GHI
5 JKL
6
7 PRS
8 TUV

tablets enable access to treasury technology that would be otherwise unavailable and allow emerging market companies to leapfrog developed market competitors.

Digital's time has come for corporations

Just a few years ago, many of the technology trends that are now revolutionizing the treasury were untested and far from secure and stable enough to use in a corporate environment. However, the adoption of new technologies follows a predictable path: consumers tend to be the earliest users, followed by small businesses – as seen in the adoption of Square (which turns mobile devices into a credit card point of sale system) – and then larger firms. Use of new technologies by larger firms lags consumers and smaller companies as they need more scalable, reliable platforms. Now many of these technologies have reached critical scale and sophistication and can therefore now be deployed to meet the more complex payments and receivables needs of corporate clients.

To maximize the opportunities available from digital, it is crucial that companies look beyond the introduction of a single technology or process. Corporates must adopt a new mindset and re-engineer their workflows to accommodate digital.

For some organizations, such a radical change could prove challenging. To get the support they need – and to achieve their goals – companies need to work with a partner that understands their business model and has a proven track record of introducing innovative technology successfully. While there has been a proliferation of technologies in recent years, providers typically offer individual services and are unable to integrate such services with other offerings or companies' broader treasury operations. By choosing the right partner, corporations can ensure they are ready to seize the opportunities that digital offers.

Citi offers market-leading, fully integrated global payables and receivables solutions as well as cross-currency solutions with an unrivalled range of currencies. Most importantly, its combination of globally consistent service, direct presence and on-the-ground local regulatory knowledge is delivered through a single trusted advisor, so that you do not have to manage multiple technology vendors or navigate the complex world of evolving technologies.

[1] Source: Deloitte Treasury Strategy and Operations Survey, conducted jointly with gtnews, July 2012

[2] Blueflame Consulting – Exception benchmarking study

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SHARED SERVICE CENTERS: REDUCING COMPLEXITY, OPTIMIZING PROCESSES AND DELIVERING STRATEGIC BUSINESS VALUE

Against the backdrop of ongoing economic uncertainty, organizations are increasingly looking to their Shared Service Centers (SSCs) to deliver additional value. This article looks at how SSCs are expanding their scope and objectives while considering the key enablers and challenges to change.

Appreciating the importance of SSCs

The importance of SSCs to deliver value to organizations is increasing, and their prevalence as a means of achieving efficiency and cost reduction in the market is growing.

For large global or regional organizations, utilizing SSCs to centralize and optimize financial activities such as payments processing is a well established means of enhancing efficiency, control and transparency, and reducing costs (Figure 1). Once initial cost savings and efficiency improvements have been made, the challenge for finance and SSC managers is how to continue driving value and contributing to the operational and strategic objectives of the company. Recent surveys like The Hackett Group's Global Business Services 10th Annual Performance Study revealed that around one third of mature SSCs have been able to deliver 10% year-on-year savings over a sustained long-term basis. As a result, SSCs need to adapt and evolve to continue giving meaningful value back to their organizations. These SSCs are actively seeking opportunities to expand the remit of their current services and service new processes and geographies.

Meanwhile, the benefits of centralized and standardized operations are more and more being sought by mid-market organizations that, similar to their larger counterparts, are seeking cost reductions and efficiencies during the current period of ongoing economic uncertainty and changing regulation, where cost, efficiency and risk management continue to be priorities.

Taking the right business approach

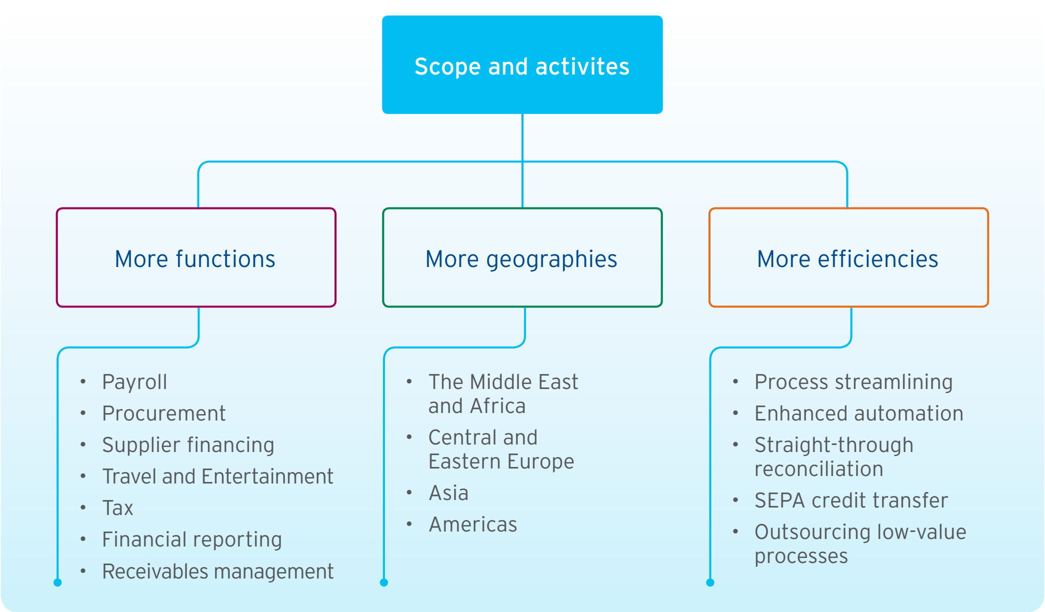
Organizations of all sizes and business segments are familiar with the principles of centralization, standardization and automation to achieve efficiency within their financial processes. While enhancing efficiency is an obvious objective, this must also be commensurate with business requirements. For example, while a company may seek to achieve optimal levels of efficiency, the level of investment required may be disproportionate to the value that the company would gain by doing so. Consequently, every company's approach to centralization, and the degree of standardization and automation that they achieve, may be different.

At Citi, we support over 1,000 SSCs globally, giving us a unique insight into a diversity of approaches to centralization and a depth of experience that enables us to share pragmatic ideas and best practices derived from working with many of the world's most respected organizations. However, regardless of any company's centralization objectives and the path it follows to achieve them, a universal issue is that there is always more to do and with it an increasing need to do more with less.

Expanding organizational scope and objectives

By demonstrating ongoing value, SSCs are becoming more prominent within organizations. Through the regular reporting of key performance indicators (KPIs) and the delivery of economies of scale, SSCs are proving their worth. Gaining the internal credibility and justification to expand, SSCs are in a better position to become multifunctional and multigeographical:

Figure 1: How SSCs can drive new value



Working with many of the world's most respected organizations, Citi supports over 1,000 SSCs which gives it a unique insight into myriad approaches to centralization and a depth of experience that enables it to share pragmatic ideas and best practices.

Expanding their scope of activities
While accounts payable and liquidity management were often among the first activities to be centralized through a financial SSC, the benefits of centralization are now being recognized in functions such as travel and entertainment (T&E) and expenses management, trade finance, and human resources.

Managing processes for new geographies
SSCs that do this for processes that have not yet been centralized and/or that support growth in line with a company's expansion plans, whether through organic growth or M&A, for example, enable many organizations to expand their reach into new regions, such as Africa and the Middle East.

Adding efficiencies and end-to-end processes
Taking care of more than just transactional elements, SSCs that go beyond payment processing can take on activities across the procure-to-pay cycle.

Improving all-round service quality

As SSCs become mature, the activities they manage become more strategic and knowledge-centric in nature. The trajectory for a SSC can first take the path of reducing operational complexity and costs before moving to a state of optimization and operational excellence and finally moving towards delivering strategic business impact. Direct cost reduction and improved controls have shown significant positive effects in an SSC's journey, and they will continue to do. However, mature SSCs are working more closely with organizational business units, becoming client-centric and putting greater focus on improving service quality. For an SSC to reach this point, there are many influencing factors including organizational alignment and support, appropriate governance structures, SSC tenure and experience, and talent retention, in addition to technology and process alignment (Figure 2).

As the SSC develops, its place within an organization can shift. SSCs have evolved from low-cost, high volume processing hubs to centers of excellence or managed service providers. As a result of this wider role, reporting lines are also changing. While a financial SSC may have reported to the treasurer or CFO in the past, today they are shifting to the CIO's or the COO's sphere of responsibility. These may have different objectives than the CFO or the treasurer, something which is further fuelling an expansion in responsibility that includes things like procurement. The centralization of procurement not only enables greater purchasing power and economies of scale but considerable advantages in the building of synergies between procurement and finance. For example, risk can be managed more effectively using trade finance instruments, and there are working capital and supply chain benefits to using techniques such as supply chain financing.

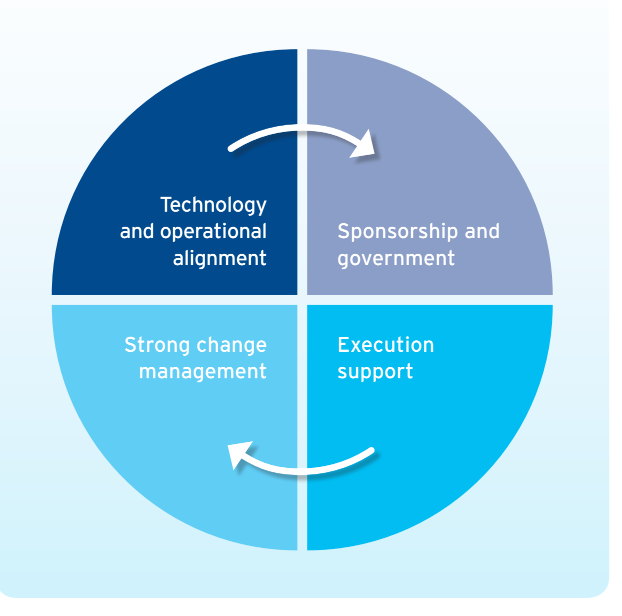
Understanding enablers and challenges

Across the SSC agenda, the role that technology is playing in driving additional value for organizations is accelerating. The global nature and capabilities of XML, procurement systems, employee self-service portals, finance systems, etc., are helping to unlock centralization opportunities. For example, eBAM (electronic bank account management) automates bank account maintenance, including the exchange of messages for opening, closing or changing signatories on accounts with banking partners. XML-based ISO 20022 standards, on which SEPA payment messages are based, enable formats for payments and account information to be standardized across banks, regions and currencies. Standardization is the key to increasing automation, whether accounts payable or receivable, human resources or employee services, finance or accounting. In many cases, leading SSCs have a specific function dedicated to process optimization to continue streamlining processes and deliver cost reductions.

There are undoubtedly new challenges that SSCs need to consider as their scale and remit increase. It is essential to remain connected with internal customers to ensure that SSC services continue to meet the changing needs of the business. This was often easier in the past when the SSC and business units' finance functions shared the same reporting lines. SSCs therefore need to be focused on establishing an ongoing dialogue with local finance managers to understand their business requirements and to provide regular reporting of service levels and KPIs. Furthermore, SSCs can draw on their central view of data to help bring new customer and supplier intelligence to the business to drive improved customer service and better-informed negotiation. Similarly, by improving processes such as automated reconciliation, cash application can be accelerated, improving DSO (days sales outstanding) and releasing customer credit lines more quickly, therefore contributing directly to business units' sales objectives.

As SSCs continue to grow in number, size and importance, the demand to attract and retain experienced and qualified staff increases. This is an ongoing concern for SSC management, particularly in regions with a high SSC concentration, such as central Europe. In order to meet

Figure 2: Factors that help maximize the impact of an SSC



this challenge, organizations are placing greater emphasis on making their SSCs attractive working environments for potential employees, with attention being paid to staff development to foster retention.

Getting support from strategic banking partners

SSCs' change in scope and responsibility also results in new demands from their banking partners. First, although pursuing regional or global centralization objectives is not new, SSCs are able to achieve higher targets through enhanced technology and greater internal support for centralized processes. Consequently, they need banking partners that fulfil a range of criteria, including:

- Geographic reach and in-country support to manage local, regional and global cash management.
- Expertise to understand centralization objectives and advise on best practices.
- Pragmatic, integrated solutions that span business processes, such as supplier management, accounts payable and procurement.
- Access to worldwide clearing systems to facilitate new payment and collection methods. For example, while local sales teams may have received payments and chased up late collections in the past, a centralized approach to collections may require customers to provide additional remittance details to facilitate automated reconciliation, which also creates new banking demands.

Looking at what lies ahead

Currently, the migration to SEPA (the Single Euro Payments Area) continues to dominate many SSCs' agendas. SEPA has forced organizations to examine their accounts payable and receivables processes to understand the impact of SEPA and their migration strategies.

As Citi was, and continues to be, a market leader in SEPA compliance, many of our customers were among the early adopters of SEPA payment and collection instruments, but there is still progress to be made before organizations become fully SEPA-compliant. In addition, those that have already migrated are now seeking our support to take advantage of the benefits that a standardized payments environment in the eurozone can offer. SEPA is also proving a catalyst for organizations to centralize business activities such as payroll while evaluating changes to accounts receivables within Europe. This naturally has, and will continue to have, an impact on SSCs. Beyond SEPA, the current trend to centralize procurement and HR activities will continue to gain scale and standardize working capital benefits.

Overall, SSCs will play a progressively important role within organizations. We will likely see a transition from processing hubs to global business service divisions as more functions and geographies become incorporated, as centers of excellence become created and as SSCs become knowledge and transactional centers.

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