Implementing Cash Management Solutions for Expanding Emerging Market Corporates

Emerging market corporates (EMCs) continue to expand to countries beyond their home markets, but many EMCs may overlook the obstacles encountered when implementing a global cash management solution. This article examines the potential pitfalls and how these can be addressed through a global banking services provider.

Adolfo Tunon, Regional Head Service in EMEA for Treasury and Trade Solutions (TTS), Citi Transaction Services and Femi Rowaiye, Regional Head of Implementations in EMEA for Treasury and Trade Solutions (TTS), Citi Transaction Services

In 2010 headlines were made when China officially displaced Japan as the world’s second-largest economy. Reports in April this year suggested that India has since moved up to third position in the rankings of major global economic powerhouses. There is common agreement that China could replace the US as the world’s biggest economy as early as 2020, and by the end of the decade Russia is on course to dislodge Germany as a member of the top five.

As the so-called BRIC economies of Brazil, Russia, India and China steadily overtake those of the West in their size and influence, a growing number of emerging market corporates (EMCs) are expanding beyond their traditional borders. The number of BRIC companies on the FT Global 500 list more than quadrupled in the period 2006 to 2008 alone. Having already produced heavyweight multinationals such as Petrobras, Tata, Sinopec and Gazprom, the BRICs have a new wave of EMCs nursing global ambitions. Many are not yet household names outside of their home markets, but this will no longer be the case in the near future.

International expansion brings with it a host of challenges from a treasury and cash management perspective and an EMC may not always appreciate the complexities of operating in the new markets they are entering. These challenges range from the difficulties of dealing with diverse regulatory and tax jurisdictions to simple local language communication barriers. For example, a Chinese or Brazilian corporation accustomed to their home market may regard the Europe, Middle East and Africa (EMEA) area as a single distinct region in the same way they view their local market. That is until they encounter the varying legal frameworks and regulatory regimes in the 50-plus individual EMEA markets. Emerging market corporate treasuries will therefore need to consider adjusting their operating and treasury models to adapt to challenges encountered with multiple banking relationships and market practices outside of their home country. Some of the key challenges that EMCs should consider are outlined below.
Implementation Considerations

Culture shock
Most EMCs will generally be accustomed to a personal working relationship with their local bankers, enabling them to fulfill banking services on an informal basis. It is not uncommon for large companies in local markets to simply call their relationship manager and request for an account to be opened with limited or no documentation. Companies may not be able to leverage these familiar relationships to the same degree outside their home markets, as regional and global banks are subject to greater levels of regulatory scrutiny that call for highly disciplined control practices. These processes make the fulfilment of such apparently straightforward banking services seem more formal. For example, being asked for personal documentation such as passport copies or utility bills to prove one’s identity when opening an account can come as a shock to a corporate treasurer.

However, this may be a regulatory requirement that cannot be waived by banks in the given countries. In addition, some EMCs prefer to verbally agree to solutions, which can compound risks if solutions and/or even team members change at a later date. Companies are therefore urged to formally document all details of the solution defined, to prevent any ambiguity at some future time.

The devil’s in the detail
When entering new regions, EMCs will encounter unfamiliar local banking instruments and market practices. While the broad cash management requirements are usually well understood, it is important not to make assumptions and invest sufficient time prior to implementation in validating all details of the final solution at a very granular market level to ensure treasury requirements are fully met.

As an example, an EMC unfamiliar with the Nordic market may mandate their bank to establish ‘low value payment capabilities’ for automated clearing house (ACH), without realising that Norway has a variety of low-value payment instruments, such as: ‘Norway standard ACH payment’, ‘Norway ACH salary payment’, ‘Norway ACH pension payment’ and ‘Norway ACH supplier payment’. Failure to fully understand and define the correct instrument from the outset could result in the incorrect transaction capability being selected and implemented, potentially resulting in serious consequences such as failed salary, pension or supplier payments.

Be ready to hand over the keys
Delegation of decision-making and authorised signatories is a significant step that EMCs may elect to take. The ability to legally bind the company, such as opening/closing accounts and authorising transactions, may have to be delegated to local treasury managers in countries outside the home country via a power of attorney, if having executives in the head office managing and executing overseas banking relationships proves inefficient.

From a practical implementation perspective, the EMC treasury team may be required to manage an unfamiliar documentation completion exercise. Internal constitution documentation relating to each legal entity and subsidiaries may require updating, so that accounts and banking relationships can be independently managed from the home country. Correspondent banking contracts and documents in a local language may also require translation and/or notarisation for acceptance in a particular jurisdiction.

‘Buy in’ is critical
Political challenges arising from a strategic decision to expand beyond traditional borders into new markets via acquisition will inevitably arise, and EMCs should not underestimate the potential impact of internal resistance to change. The decision to move to a global bank, for example, may be perceived by a local subsidiary as a direct threat to their autonomy.

Stakeholders’ concerns that are not addressed effectively may translate into overt or covert resistance to the project, which may present significant barriers to successful implementation. Bringing local stakeholder groups into the implementation process is a means of generating support, as is a proactive communication programme outlining the benefits of the move at an enterprise level.

Get the techies on board
The technical infrastructure underpinning an EMC’s transition from local to global should be sufficiently scalable to maximise standardisation and centralised control, whilst minimising any local integration or
maintenance challenges across diverse geographic markets. This may require the upgrading of accounting platforms and enterprise resource planning (ERP) environments, adoption of bank agnostic file formats such as ISO 20022 XML and the establishment of new bank connectivity. The availability of sufficiently-skilled technical resources within the EMC will be critically important in establishing the technical infrastructure and bank connectivity required to maximise the expected efficiencies of globalisation.

Service Considerations

Operating models in a day-to-day environment
During an exciting and challenging period of international expansion, the practicalities of conducting transactions across multiple locations in a business-as-usual, day-to-day environment may be the last to be considered. Nevertheless, given the local flavour of many of the products and solutions used by EMCs, service models and expectations related to the most appropriate support structure for both headquarters and subsidiaries must be evaluated early on, to ensure satisfactory handling of inquiries expected once the client initiates transactions. Incoporating these considerations in the decision-making phase, prior to the implementation of banking solutions, ensures not only that the required service model is provided to the client, but also that service representatives are familiar with the EMC’s business profile from the outset and are able to work towards establishing long-standing partnerships with clients.

Leveraging the technology at your fingertips
From online banking capabilities to inquiry self-servicing platforms, extensive technology is available to clients to enable smooth daily transaction initiation and account oversight, with maximum automation opportunities. The temptation to revert to manual transactions and minimum self-service, typical for a local-only relationship may, however, transform into long-term business habits and prevent the maximisation of the bank’s available resources, both human and technical, to support the client.

Making use of training programmes materials and resources
Clients’ knowledge of both electronic banking (e-banking) systems and extensive industry-related topics via online and on-demand training can be boosted by using the learning portal of a bank such as Citi, which offers live, on-demand, web-based sessions. Content is tailored to local conditions and trends, and regularly updated to bring clients’ insights into technical and industry information. Shared service centres (SSCs), or combined local and global needs, makes these resources invaluable for the seamless operation of business, and EMCs – more than any other corporate segment - can benefit as they establish themselves as regional and global companies.

What Should You Expect from Your Banking Partner?

A well-prepared and qualified team is paramount
All of these considerations mean that an EMC facing such challenges will require a banking partner able to meet its cash management implementation and service requirements in several areas. Top of the list is the ability to provide clear direction and a significant degree of hand-holding, through a professionally certified project management team with a single point of contact to oversee and co-ordinate the entire project, as well as efficient business-as-usual capabilities to serve the corporation at both local and global levels.

The bank’s implementation and service teams should ideally have local language capabilities and a proven track record of implementing and supporting global treasury solutions for large corporates. They can assist in defining the optimum global solution down to a specific country level. This can be achieved via ‘solutioning workshops’ between the corporate and its banking provider, an efficient means of getting to the detail quickly, ensuring that the correct solution is implemented at the outset and mapping out the end-to-end country requirements.

An efficient banking partner should also offer a structured implementation framework based on best-in-class governance techniques, with the flexibility to adapt to an EMC’s unique requirements where needed. It will also provide a seamless end-to-end on-boarding experience and transition, from the solutioning phase through implementation to on-going customer service. Getting the solution right from the outset, knowing exactly what is being implemented and what is the business-as-usual customer service landscape are vital. If this understanding is lacking, then even the best in-class project management team, top-notch technical specialists and comprehensive documentation will not be able to compensate. From the outset, all of the low-level detail must be established, so that everyone throughout the organisation knows what will happen, why it will happen and exactly how it will happen.
As noted above, internal 'buy-in' for the global solution within the EMC is important to ensure project success. The bank should be ready to assist the EMC’s head office in 're-selling' the benefits of the global solution and implementation methodology to internal EMC subsidiaries, to ensure the buy-in of all stakeholders is attained upfront and confidence in the execution model established.

Clear file integration guidelines are key. These should cover the full range of transaction types across all countries, as well as comprehensive testing programmes to ensure a seamless integration experience. In addition, experience of managing bank agnostic file formats, including ISO 20022 (pain 2 and pain 3) as well as other well-established payment file formats, will be essential as the EMC endeavours to maximise the benefits of scale.

Finally, a well-defined legal and documentation support model that can centrally guide the documentation strategy and co-ordinate/support the documentation execution globally, including any legal negotiations between the EMC and the bank's legal teams, will be essential in ensuring a seamless documentation experience.

Banks with a major global footprint can assist EMCs in their transition from local player to global contender in managing their working capital, preparing them for any challenges that they can expect to encounter, and by maximising continuity across diverse markets.

For case study examples of companies showing implementation challenges and successes, please visit http://viewer.zmags.com/publication/cca3aa79#/cca3aa79/1

Adolfo Tunon is the regional head Service in EMEA for Treasury & Trade Solutions, Citi Transaction Services. He joined Citi in 1998 and has held several position in Europe and Latin America in trade and treasury solutions, specifically in transactional services in payables, liquidity, investment and receivables. Previously, he worked in London for Banco Rio/Santander (1994-97) as chief financial officer (CFO), fixed income sales and trade finance. Prior to that, he worked for Lloyds Bank in Buenos Aires, Sao Paulo, New York and London, as client manager and later as product manager, both corporate and consumer banking. Tunon holds an MA in Accountancy and Business from University of Buenos Aires and an MBA in Financial Services from University of California at Los Angeles (UCLA).

Femi Rowaiye is the regional head of implementations in Europe, Middle East and Africa (EMEA) for Treasury and Trade Solutions (TTS). In his role, he is responsible for client implementation activities for the cash management and trade product groups across the region. Prior to this, Rowaiye was the chief operating officer (COO) for the EMEA TTS product organisation. He joined Citi UK in 1998 as a senior business analyst. Between 1999 and 2002, he transferred to Citi Nigeria where he held senior operations positions under the senior country operations officer (SCOO) development programme. In 2002, he joined the operations and technology regional office re-engineering team, where he was responsible for the planning, preparation and execution of key re-engineering initiatives. In May 2004, he was appointed head of business re-engineering for EMEA cash management. Prior to joining the bank, he worked for a major oil field services company from 1990 to 1996 as a senior field engineer in 11 countries across Asia, Africa, North America and Australasia. Rowaiye holds a BSc in Electrical Engineering, an MBA from London Business School and the ACT certificate in international cash management (CertICM).

Citi

Citi, a leading global financial services company, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services, and wealth management.