Navigating the impact of geopolitical risks

There is growing uncertainty about trade arrangements and geopolitical tensions in many countries around the world. Developments such as the US/China trade war, Brexit, Italy’s uncertain fiscal position, and higher emerging market volatility all point to a potentially challenging future. While treasury is unable to financially hedge against many of these issues, it can plan for greater volatility and potential surprises such as disruption to trade flows and cash flows, as well as increased costs and currency exposures.
To manage issues such as Brexit, companies need to work with their banks to understand the consequences of geopolitical developments and make adjustments to liquidity management, operating flows and risk management strategies as necessary. Similarly, trade tensions will have an impact on profit margins and cash flow and could disrupt supply chains, impacting sourcing, terms and currency exposures. Again, companies should scrutinize their cash forecasts and consult with their banks, which can provide advice on potential alternative arrangements.

**Embracing business model revolution**

A multiplicity of business models are emerging, driven by changes in supply chains (such as globalization or, in some instances, onshoring), M&A activity led by investor activism and digital disruption (such as digital natives and platform companies), changing consumer expectations and buying behavior (such as e-commerce and the use of e-wallets on smartphones), trade agreements, computing power, and the advent of new digital technologies.

Companies, and therefore treasury, need to be positioned to benefit from these changes. From the perspective of treasury, the key imperatives are to mitigate disruption and manage risk and hasten the pace of adaptation to change. Treasury needs to be agile by investing in new skill sets, as well as technology, and by taking a more strategic role and collaborating with the business to improve the competitiveness of the enterprise. Increasing automation and improving efficiency can free up the capacity needed to better manage the changing environment.

**Mobilizing the digital treasury**

Full automation of operational treasury is fast becoming a real prospect. There are multiple parts to a digital treasury; their relevance depends on a company’s level of investment to date. For some companies, the immediate need will be to move from manual input to a file upload, while for others it may involve using an API to link their ERP system directly with their bank. A common theme is making better use of data by using analytics; collaboration with the bank is essential to facilitate such developments.

Key themes in the move to a digital treasury include the use of artificial intelligence (AI) and machine learning to empower people and augment human capacity in order to free up capacity for value-added activities; this can be especially valuable in areas such as reconciliation or fraud mitigation. For companies seeking to improve efficiency and centralization, there is a need to consolidate data and banking entry points – perhaps using APIs – to improve visibility and begin the process of account and bank relationship rationalization.

Companies should begin by defining an integrated digital roadmap that outlines key banking and non-banking relationships; they may also need to reconsider their KPIs and policies to accommodate new benchmarks. A multi-year incremental project can be a useful way to demonstrate early successes, improve efficiency and mobilize further funds for later phases of digitization.

**Preparing for cyber threats**

While the increased use of technology creates enormous opportunities for efficiency improvements and cost savings, it also introduces potential risks. Cyber threats are growing, with associated losses in the trillions of dollars. Unsurprisingly, preparing for such threats in order to mitigate losses, prevent business disruption and limit reputational damage is a growing priority for companies.

Organizations can protect themselves by taking a holistic approach and deploying security best practices across their entire ecosystem, including suppliers and banks. Best practice is to create a layered security structure – protect systems to prevent access, detect using technology and hiring people with appropriate skills, and respond across the organization’s people, processes and technology. Centralization can be an important facilitator for such change by increasing visibility, simplifying processes and standardizing security.

All companies are likely to be subject to cyberattack at some point. Best practice is to develop a strategic contingency plan that is robust, tried and tested.

**Working with a trusted partner**

Preparation is key to managing geopolitical risk, prospering as business models evolve, creating a digital treasury, and addressing potential cyber risks. Having a team that is adaptable to change and offers a diversity of talent is becoming increasingly important for companies in managing in today’s uncertain environment and dynamic marketplace.

Across many of these areas companies need to spend time and invest resources to develop a realistic and actionable roadmap. Banks are well placed to help companies with these preparations and can be a crucial source of information about the evolving treasury landscape, as well as providing the solutions that can enable companies to achieve their priorities. Companies should ensure they work with a bank that has the on-the-ground presence (to ensure relevant insights about regulatory and market developments) and a consistent record of technology investment to help them achieve their objectives.