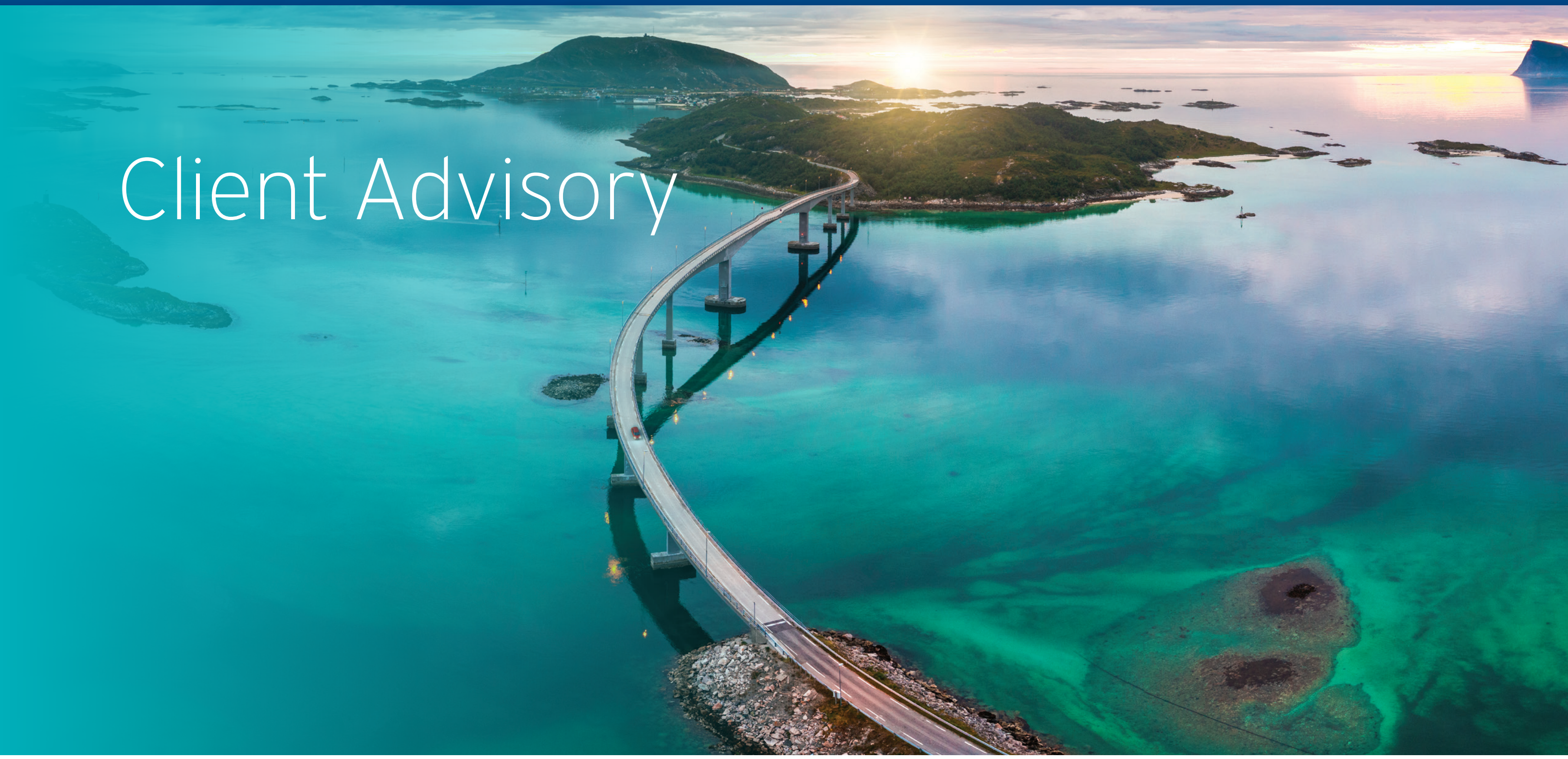
Treasury and Trade Solutions



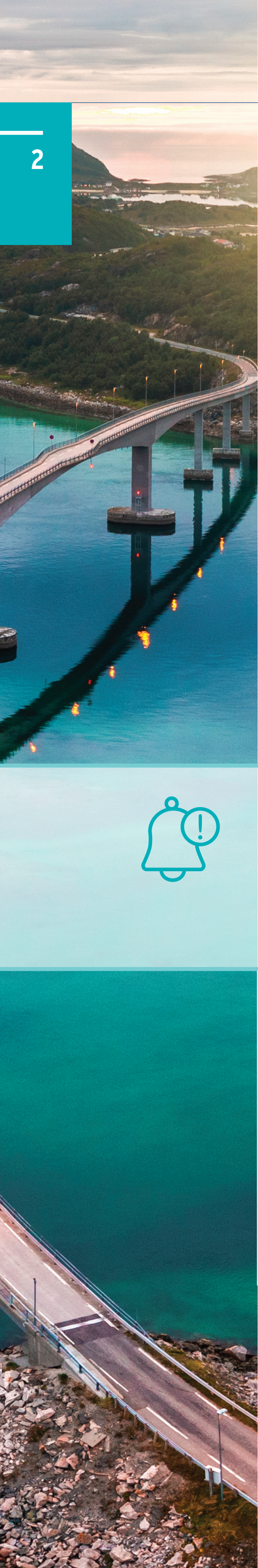
Client Advisory

TREASURY
Top Priorities 2022

> **It is essential to consistently focus on the important while dealing with the urgent. With that in mind, we have witnessed many companies needing to strengthen their treasury fundamentals as cornerstones for growth, forging a path to digitalization, and building resilience in the face of uncertainty.**

Navigating 2022

Treasuries face uncertain political and economic factors each day that influence how they manage their operations. Over the last two years, the world that we live in has evolved to be an ever-changing quandary wrought with unpredictability. What was previously thought to be the end of the pandemic still has not yet arrived. With the influx of rapidly contagious variants such as Omicron, the end remains unclear.



Meanwhile, Citi's global economist projects faster global GDP growth of 3.3% in 2022. Coming with it is a pickup of real inflation to 6.1% in 2022 and labor shortages. As anticipated, major central banks are signaling monetary tightening. At the same time, supply chain disruptions continue — with drivers ranging from lingering pandemic impacts, to Brexit, to supply chain reshoring in some industries. New geopolitical instabilities are also catalyzing uncertainties once more. Digitalization proceeds apace in many industries. Not to mention the coming global tax reform and how that may affect organizations and how they sell.

A gulf is opening between treasury organizations that have made the investments and mastered the fundamentals, versus those that are still trying to attain control and visibility of cash, manage bank relationships, and forecast accurately. Therefore, we argue that there is no better time than now for treasuries to ground themselves in fundamentals in the face of uncertainties. The adoption of better treasury practices could be the bridge to usher in the next generation of digitalization. Experimenting with digital technologies including Artificial Intelligence (AI), Machine Learning (ML), DLT (Distributed Ledger Technology), and digital assets may be relevant for some who are advanced, but we argue that they are not yet of consequence for many others at this time.

Forging the Fundamentals

Much of what we have written about so far may be difficult to change in the short-term. However, all companies must deal with it; and their ability to cope, thrive, and spend the hours needed in hard work can be made much easier if they are well-positioned in their fundamentals. If they are not, then they may struggle to see what's in front of them as they are too focused on the urgent over the important.

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By Fundamentals, we mean Cornerstones of Treasury:

1. Bank Account Administration
2. Liquidity Management
3. Technology & Data
4. Forecasting
5. FX Risk Management
6. Payments

Most treasury practitioners would arguably agree that this list comprises the fundamentals. However, they may be surprised that bank account administration is at the top of the list. Being the first on the list does not mean it's the most important. Bank account administration is the most foundational aspect — often overlooked, under-resourced, and undervalued. The first thing a company does when it establishes a new legal entity is to open a bank account. A bank account is also the last thing that closes when a legal entity goes away. It is also the foundation through which cash is collected and paid. Keeping good control and administration over your accounts and constantly rationalizing accounts leads to the second most important pillar for treasury — liquidity management.

Liquidity management is the efficient and automated movement of funds to ensure that you have the right cash in the right place at the right time. An efficient bank account structure that is well-connected with target balancing, multi-bank target balancing, and other tools, coupled with services that allow for the efficient concentration of cash across legal entities where possible, is foundational.

The third item on this list of fundamentals is technology and data; and data underlies automation in balance and transaction reporting. Data is the pathway to forecasting and FX risk management. This leads us to what is often in the headlines — payments. The world is currently discussing instant payment schemes, alternative payments, and cryptocurrencies. Being at item six does not mean that payments are less important; rather, that the world of payments is already well-advanced. Treasury teams need to focus and catch up on the other foundational elements of treasury.

Focus on People or is it really: What's Wrong with Treasury?

We often see that treasuries seem to be constrained for three reasons that are ultimately linked to talent and mindset.

The first is a dearth of experienced treasury professionals and a lack of certification programs to build broad and deep treasury fluency, instead of mere topical understanding of the most pressing issues. Most companies do not have a formal treasury training program, as compared to finance programs centered around accountancy and controllership, internal audit, and FP&A. The intricacies of how banking and foreign exchange work are not well-understood by many people. For example, understanding how a dollar moves from a Citibank account in New York to another bank in London, or how payments and liquidity management come together on balance sheets, helps to ensure wire payments get to their intended recipients. Even if the Great Resignation is less prevalent in this field, many treasuries have seen outflows of resources to new companies seeking new and better career opportunities.

In sum, treasury leaders along with their finance and human resource leadership teams need to come together in realizing and emphasizing treasury's unique value proposition, so that treasury and all its functional areas of specialization are perceived and defined as a career field. This means investing in treasury-specific training, creating opportunities to grow treasury skills and advance careers within treasury, as well as recognizing the need to enhance skills in data and technology.

Secondly, treasuries are often constrained due to a lack of organizational direction and shared values that can empower and drive decision-making. Most treasuries are focused on risk management and helping to ensure that cash is in the right place at the right time. However, that alone does not drive an organization's values, propel empowerment, or form alignment between teams within a treasury and company.

The third limiting factor is the appetite to seek funding for treasury in terms of people and technology. Unfortunately, treasurers often do not position themselves as business enablers that help drive revenue for the company. The focus is on risk managers, corporate finance experts, and operations leaders. This does not help empower treasury. Every business selling and pricing decision runs on the infrastructure that treasury maintains. Therefore, treasury should seek resources from the businesses they support in order to help navigate a complex world.

Positioning for Digitalization

In 2022, treasuries should position themselves for digitalization. Treasuries should focus on data, setting aside for a moment high-minded ideas and concepts such as AI and ML. This does not mean that AI and ML do not matter — of course they do! But data is the foundation, and most treasuries do not have easy access to usable data for basic analysis without scouring for pieces of data on an ad hoc basis and cleaning it. The data is often outdated, and treasury analysts are still working in Excel worksheets. If a company has access to data and skilled treasury staff that knows how to work with data — and we applaud visionary companies that have hired data scientists into their treasury teams — they can move from people-dependence to process-dependence, and then to automation. In terms of data, they can evolve from descriptive or diagnostic analytics (which are static and often stale), to predictive or cutting-edge prescriptive analytics.

Companies that are advancing on the data and digitalization journey tend to be those that have made meaningful progress on fundamentals. Their strong foundation helps to provide opportunity in propelling digitalization due to internal credibility and ability to obtain funding.

Unfortunately, not everyone is ready. As we discussed above, many companies should prioritize focusing on the fundamentals: addressing policy, process, people, and navigating infrastructural challenges to be more efficient and effective at managing cash and risk. In our recent Citi study of near 500 corporate treasury professionals, we saw that there are two forces pulling on treasury leaders today: "Positioning for the Digital Opportunity" vs. "Addressing the underlying Infrastructural Challenges".

At Citi, recognizing these competing demands, we now assess our clients against two dimensions or axes: first, against their treasury effectiveness in applying treasury fundamentals and second, their level of digitalization, automation of processes, as well as internal and external connectivity.

We find that by combining these two measures, clients can chart a better path forward. We have seen client objectives cluster into three target states: those seeking process efficiencies, costs savings, and optimizing transactional treasury; those seeking to automate repetitive processes and move beyond reporting to predicting and augmenting human decisions; and finally, those that move to position themselves for further automation, utilization of predictive and prescriptive techniques, and extending the role of treasury to utilize data to offer insights and business guidance to support business growth.

Some of the challenges for most companies to overcome remains data veracity, people skills, and legacy technology due to under-investment in treasury technology.

So where do you start in 2022? Companies should look to assess data availability, its completeness, timing, and veracity as this is the foundation to support digitalization. Companies should also evaluate their technology suitability by performing an analysis of their current versus future state technology based on digital ambition. Finally, companies should look to upskill treasury teams by taking the time to understand the talent needed to deliver digital objectives and weigh that against current teams. Data fluency is an essential part of the skillset required.

Takeaways

What we discussed for 2022 may seem vanilla. You did not read about the Metaverse, Web3, Blockchain, DLT, and permutations. This is not to say that these things are not priorities for some, but we would argue that they are not of consequence for most companies at this time. Keep an eye out and try to assess how these initiatives will play out. Someone once said that in treasury, it is better to be a fast follower, than an early adopter.

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