Contents

1 Foreword
Alain Papiasse, Group Deputy Chief Operating Officer and Pierre Fersztand, Global Head of Cash Management, BNP Paribas

3 Enablers and Challengers: The Rise of Fintech
Helen Sanders, Editor, TMI

6 Transforming European Cash Management at Estée Lauder Companies
Bart Taeymans, Executive Director, International Treasury Centre, the Estée Lauder Companies Inc. and Hugh Davies, Director, Zanders Treasury & Finance Solutions

9 The Birth of Blockchain
Philippe Denis, Chief Digital Officer, BNP Paribas Securities Services

10 Virtual Cards Become a Reality
Ludovic Velasco-Martinez, Head of Marketing, Commercial Cards, BNP Paribas

11 Time for Instant Payments?
Francis De Roeck, Head of SEPA offering, BNP Paribas

12 Big Data: Addressing the Corporate Treasury Data Challenge
Andre Casterman, Chief Marketing Officer, Intix

13 A Connected Approach to Mobile Banking
Steven Lenaerts, Head of Product Management Global Channels, BNP Paribas

14 Introducing SWIFTgpi
Stanley Wachs, Global Head of Bank Engagement, SWIFTgpi and Damien Godderis, Senior Product Manager, International Payments and Correspondent Network, BNP Paribas

15 Dividing the Business, Consolidating the Value
Michel Verholen, Director, Global Treasury Centre, Zoetis

17 In-house Banking: The Ultimate Treasury Centralisation Model?
Raffi Basmadjian, Deputy Treasurer, Orange and Filipe Simao, Head of Client Advisory & Strategic Marketing, BNP Paribas Cash Management
INNOVATION IN CASH MANAGEMENT

Foreword

by Alain Papiasse, Group Deputy Chief Operating Officer and Pierre Fersztand, Global Head of Cash Management, BNP Paribas

It is now nine years since BNP Paribas launched its flagship Cash Management University, most recently in Paris in June 2016. This year, however, marks a step change. On one hand, the range and complexity of challenges with which treasurers are faced, are on a scale that have not been seen since the global financial crisis. On the other hand, there is an unprecedented range of tools and opportunities to overcome challenges and create value in new ways. In this environment of challenge and change, treasurers need their banks to demonstrate resilience and stability, and support them across the markets in which they operate with solutions and services that meet their current needs and future aspirations.

Stability and certainty

Economic growth over the past year has not reached levels that were hoped for or expected, with the IMF constantly reviewing predictions downwards. While the United States is probably now over the worst, emerging markets face a more difficult situation. Volatility in commodity prices and structural changes in China, the world’s largest buyer of commodities, is key to this, as it transitions towards becoming a services and consumer-oriented economy. In Europe, while there have been some positive signs in GDP growth, it is difficult to see how the cycle of low rates, low growth, low inflation will be broken. Furthermore, the recent result of the Brexit referendum in the UK further exacerbates uncertainty across the continent and beyond, which is likely to have far-reaching ramifications across the medium term.

In this environment of challenge and change, treasurers need their banks to demonstrate resilience and stability.

Alain Papiasse,
Group Deputy Chief Operating Officer,
BNP Paribas

Pierre Fersztand,
Global Head of Cash Management,
BNP Paribas
Reinforcing our commitment

Supporting customers’ cash and treasury management objectives during times of growth and times of uncertainty is a vital strategic objective for BNP Paribas. Banks need significant investment capability to deliver effective transaction banking services, including a sustainable capex programme and robust infrastructure, rather than relying on a correspondent banking that involves different service levels and systems. Not all banks are in a position to make or maintain this investment, particularly given the growing costs of regulatory compliance, which has resulted in a series of market exits.

In contrast, we recognise that offering robust, scalable cash management services across our customers’ geographic footprint that allows them to manage cash on a pan-regional basis, including more challenging countries, is key to building and deepening long-term relationships. As a result, we have continued to invest in a worldwide network designed to offer our customers the depth and breadth of solutions, presence and expertise that they require. This has included reinforcing our cash management presence in Asia, the Gulf States, where BNP Paribas has the largest presence of any international bank, and Africa, particularly French-speaking countries, in addition to a branch in South Africa. We have also invested in, and integrated our CIB platform in the United States with Bank of the West, our regional corporate and retail bank.

A characteristic of our cash management offering is to deliver services as a ‘local’ bank in the markets in which we operate, marking the smooth transfer of Royal Bank of Scotland’s international customer business, and best bank in Europe for large corporates. In addition, it was a privilege to be recognised for innovation and excellence once again by TMI for cash and liquidity management, payments and collections.

Innovation and co-creation

A successful cash management business is not only based on past achievements, however, but on our ability to invest in innovation that will allow our customers to tackle the challenges that lie ahead. Digitisation is already changing our world, with considerable potential not only to increase convenience and cut costs, but also to solve key challenges, such as reducing operational risk for both banks and corporations, managing changing regulatory requirements and tackling growing cybersecurity risks, areas in which we are already investing heavily. Bank account management, including mandates and KYC (know your customer) is already an area in which we have taken great strides: this summer, for example, we have introduced digital tools for pan-European account documentation. We have also launched new mobile banking capabilities through Connexis Mobile and introduced sophisticated developments in fraud detection. Similarly, we are investing in tools to facilitate customer analytics and decision-making, such as leveraging big data to provide customers with benchmark information and promote best practices.

Key to our innovation strategy is co-creation with our customers, to ensure that emerging solutions are aligned with their needs and expectations, and meet the needs of a changing world. At a wider industry level too, BNP Paribas continues to be a pioneer in promoting standardisation and co-operation. We were one of the first banks to support SWIFT for corporates and took an early decision to embrace XML at a time when many banks clung on to their proprietary solutions and formats. We are now playing a leading role in innovation and standardisation initiatives to find ways to address emerging challenges such as KYC, bringing together banks, infrastructure providers, technology vendors and the wider financial community to effect real change that delivers value to customers.

The theme of this year’s Cash Management University was “Innovations in Cash Management for a Digital World”, encapsulating many of the challenges and opportunities faced by corporate treasurers and their banks. The articles in this Guide provide a snapshot of just a handful of the sessions that took place. To receive more information about the event, and register your interest for next year, please contact Anne Dugied, Head of External Communication at anne.dugied@bnpparibas.com.
The Cash Management University included an interesting and engaging series of in-depth workshops from which participants could choose, covering topics such as cash investment, payment factories and reverse factoring. The following article outlines some of the themes and issues that were explored during a fascinating workshop on fintech, “Taking the Buzz out of Fintech”, featuring Robert Dekker, Associate Director, KPMG Advisory, Bruno Mellado, Head of International Payments and Collections, BNP Paribas and Dominique Adriansens, CEO and founder of fintech company Twikey.

Fintech companies are already attracting significant investment, estimated at $20bn in 2015.
Who are fintechs?

Given that using technology to enhance and automate financial processes and decision-making is not new, it is sometimes difficult to define ‘fintech’, which is simply a contraction of ‘financial’ and ‘technology’. In general, fintech is used to describe new products from new startups, or the adoption of new approaches by existing players where technology is the key enabler. So far, fintech innovation has been targeted more at the retail than wholesale financial space, with the World Economic Forum identifying six ‘innovation clusters’: payment; market provisioning; investment management; insurance; deposits, and lending and capital raising. Increasingly however, we are seeing a greater focus on solutions for corporations as well as individuals and small businesses.

Catalysts for fintech growth

Fintech companies are already attracting significant investment, estimated at $20bn in 2015, and the twenty largest fintechs generated $45bn in 2014 alone. While this level of growth and investment puts some bank revenue at risk, the likelihood is that banks and fintechs will continue to co-exist, and given the expansion in the financial services market, there is room for both to flourish.

Regulators have been proactive in embracing and encouraging the growth of fintechs by recalibrating their supervisory approach to reflect the new environment, engaging in a dialogue with stakeholders, and improving their knowledge of technology innovation. The Australian Securities and Investments Commission (ASIC), for example, has started an Innovation Hub, while in the UK, the Financial Conduct Authority (FCA)’s Project Innovate has supported over 175 new businesses by providing the environment in which to test innovative products, services, business models and delivery mechanisms. Also in the UK, the Open Banking Working Group, set up by HM Treasury in September 2015, has created an open banking standard for building bank application programming interfaces (APIs) to stimulate technology innovation in the financial sector.

Building relationships

Although in theory fintechs have no inherent advantages over banks or more established players, their scale and lack of legacy issues enables them to be more adaptable to a changing business and technology environment, and create, test and take to market new solutions more quickly. Furthermore, without the potential constraints of existing products, services and business models, it is often easier for these companies to bring a fresh perspective on existing models and identify and deliver more radical, potentially ‘disruptive’ solutions.

However, despite the advantages that fintechs have over incumbent players, whether banks or larger technology companies, they lack the reach, customer base and scalability of these organisations. Consequently, the relationship with these incumbents will be critical for many fintechs in the future. The nature of this relationship will clearly depend on the specific type of solution but effectively, fintechs fall into two broad categories: ‘enablers’ and ‘challengers’.

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broad categories: ‘enablers’ i.e., those that facilitate or enhance an existing process or solution, and ‘challengers’ i.e., those that create an alternative to an existing process or solution.

For enablers in particular, collaboration offers significant benefit to both banks and fintechs, while for challengers, some banks or technology vendors may seek to ‘neutralise’ or embrace solutions into their own stable through acquisition. Banks are engaging in a variety of ways, depending on the maturity of the fintech: for very early start ups, for example, banks’ start up and incubator programmes can help them to take their first steps. As companies mature, there is opportunity for partnership and venture capital, and in some cases, acquisition will be the preferred route. Furthermore, start ups can flourish within a bank as well as outside it, such as through innovation labs. These solutions may be added to the bank’s portfolio of solutions or marketed through a subsidiary.

BNP Paribas is proactively engaged both in facilitating new start ups and partnering with fintechs that already have a proven value proposition. The bank’s fintech accelerator, which is designed to encourage co-innovation and mutual opportunities, attracted 142 start ups in 2016, covering a wide range of financial services. Fifteen percent operate in the areas of cybersecurity, fraud reduction and compliance, a key area in which fintechs can add value to both banks and corporate customers. Eight companies were selected to receive further support from the bank.

In addition, BNP Paribas has established a variety of flagship partnerships with leading fintechs in their respective fields, such as cross-border payments network Earthport and Twikey, a mandate service provider.

Twikey: electronic direct debit mandates
As Dominique Adriansens, CEO and founder of Twikey explained, Twikey offers a complementary solution for both banks and corporate treasury and finance functions to initiate SEPA direct debit mandates, manage these mandates over time, and automate the full SEPA direct debit workflow. As many companies have experienced, the process for setting up and managing direct debit mandates, particularly B2B mandates, is very lengthy and paper-intensive, in some cases taking up to five months. In contrast, Twikey replaces paper mandates with digital messaging and approval for B2C and B2B mandates for payments such as subscriptions, rentals, loan repayments, utilities and one-off payments.

As Twikey is a complementary solution to both bank and corporate processes, the company has a number of active partnerships in place with leading banks in the Benelux, including BNP Paribas. The results for corporate customers have been striking. Companies with 200,000 recurrent subscriptions, for example, can expect to make annual savings of €150k - €270k by switching to electronic direct debits. Furthermore, as mandates can be configured and branded for each customer, they can deliver a high quality, efficient and prompt service to their clients and therefore enhance the client experience.

Business as usual
The ‘buzz’ around fintech will inevitably fade as emerging solutions mature and become well-established, either as independent solutions or as part of a wider bank or technology provider portfolio. However, just as we have seen new entrants ‘disrupt’ existing business models, from Uber for ride ordering through to Apple Pay for consumer contactless payments, fintech companies, both independently and in collaboration with other organisations, have the potential to challenge, and in some cases transform existing business models, processes and decision tools. As yet, we are still at an early stage in this process: most corporate treasurers and finance managers have yet to see major inroads into their organisations from new fintech entrants. As these mature, however, it will become increasingly important to stay informed and open-minded about new opportunities that can help improve performance, controls and decision-making.

BNP Paribas has established a variety of flagship partnerships with leading fintechs in their respective fields.
Transforming European Cash Management at Estée Lauder Companies

Estée Lauder has established a global reputation for high quality, premium beauty products, but the group’s commitment to quality and excellence applies across the full reach of its activities. Treasury is no exception. As Bart Taeymans, Executive Director of the International Treasury Centre for the Estée Lauder Companies Inc., and Hugh Davies, Director of Zanders Treasury & Finance Solutions outline in this article, a series of projects has resulted in a highly efficient cash management organisation that also forms the foundation for future innovations.

Treasury organisation

As a professional treasury department that acts as a service function to the group, our aim is to create incremental value for the company and our shareholders in whatever we do. This includes implementing efficient, best in class processes, reporting and systems, providing sophisticated analytics and insightful thought leadership, and acting as an expert business partner to the organisation. We have a centralised treasury organisation with treasury centres located in the United States and Belgium. Our corporate team in the United States is responsible for...
INNOVATION IN CASH MANAGEMENT

Catalysts for change

Over the past few years, the company has been setting up a single instance of SAP globally which creates both cost and operational benefits across the group, including treasury. This project has been a catalyst in our treasury organisation to maximise the benefits of a single, cohesive technology environment and phase out both our non-SAP systems and non-standard processes.

We were also fortunate in that the timing of our project coincided with the mandatory migration to SEPA (Single Euro Payments Area) for payments and collections. As we were therefore updating our systems, processes and formats in line with SEPA requirements, we could also take advantage of the opportunity to harmonise formats based on XML ISO 20022 and increase financial and operational efficiency.

Treasury roadmap

We partnered with Zanders to develop a treasury roadmap to outline our future direction, but with a focus on what was practical and achievable. Zanders applied its seven-step approach to achieving transformation in a structured way, from analysis of current states through to identifying objectives, selection of partners and finally execution. As part of this evaluation process, we recognised that two areas in particular: systems and banking, were sub-optimal.

Looking first at our systems infrastructure, for example, we had a central treasury management system managed in the US which was accessed from both treasury centres. However, we also had a number of other systems in place that we used for daily operations. In addition, we also had a variety of disparate means with which to connect to our banks. In treasury, we used SWIFT via a service bureau, whereas our global finance teams still relied on a variety of bank portals. Related to this, our banking landscape had become fragmented, particularly in EMEA. This was due in part to the growth we have experienced as a business, with local affiliates appointing their own banking partners. This was less the case in Asia Pacific and Latin America where treasury had been more closely involved in making, or supporting the choice of banking...
partners. Our roadmap therefore laid out short-, medium- and long-term plans to overcome these perceived limitations.

**Bank rationalisation**

We recognised that a rationalised technology infrastructure would only partially enable us to achieve our objectives. We also needed to review and rationalise our cash management banks and solutions, and the formats in which we exchange transactions and information. Previously, we had 32 banking relationships in Europe with nearly 200 accounts, which inhibited the efficient centralisation and control of cash, restricted treasury’s ability to automate processes, and led to unnecessary counterparty risk. To overcome these challenges, we decided to consolidate cash management using our core financing banks wherever possible. In addition, this approach would also allow us to centralise payments and collections more easily in the future.

The first step was to issue a request for information (RFI) from which we derived a shortlist of five banks. We evaluated these objectively and ultimately selected two European partner banks, including BNP Paribas. One of our criteria was to be able to centralise cash through a physical cash pool into our international treasury centre, which would enable us to control our cash more effectively from the centre. Secondly, our banks needed to support our local transaction needs. For example, our stores operate on a standalone basis, and therefore have requirements such as petty cash, cash transport services etc. so we had specific needs in each country that we needed our banks to support.

We are now close to completing the implementation of our pan-European cash pool with BNP Paribas, which has already resulted in considerable advantage to our business. This originally comprised 9 countries and 14 entities, but this has been increased to 24 entities following acquisitions. The number of accounts that we manage has also increased as a result.

**Wider benefits**

Although reducing costs was not our primary objective, these improvements have resulted in considerable savings and more standardised pricing with our banks that is easier to manage and reconcile. Of equal if not greater importance, we now have a standardised approach to cash management across our international operations. Our account and liquidity structures are leaner, more transparent and easier to manage, and set the basis for further improvements to automation, controls and connectivity. Currently, for example, our local subsidiaries use Connexis for electronic banking. Once we have fully streamlined and bedded down our processes, we can then look at the most appropriate means of routing payments, such as expanding the use of our SWIFT connection more widely across the organisation.

**Lessons learned**

As a complex project with a range of dependencies and stakeholders, there were inevitably various challenges to overcome.

Given that treasury is a support rather than sales function, it is sometimes difficult to encourage other parts of the business to prioritise the project and convince them of the benefit of changing banks, for example, when they may see no direct reason to do so. Balancing priorities, overcoming resistance and setting out a vision across the organisation is challenging, but it is essential to manage stakeholder objections and priorities carefully. BNP Paribas was instrumental in helping us to do this. Together with the local BNP Paribas team, we visited each of our affiliates, so that local finance teams would meet their new contacts and build relationships quickly.

**Future plans**

In the future, we will be able to extend the value of our cash management investment further, such as implementing a payment factory that operated on a payments-on-behalf-of (POBO) basis. Greater standardisation of information formats will also facilitate greater automation, such as more sophisticated statement processing and automated reconciliation.

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**Estée Lauder**

Estée Lauder is a global leader in prestige beauty with a diverse portfolio of more than 25 brands. The company sells its products through a limited number of distribution channels across more than 150 countries and territories, reaching more than 500 million consumers each year. In 2015, the Estée Lauder group companies generated sales of $10.78bn, and employed more than 40,000 professionals worldwide.
The Birth of Blockchain

Philippe Denis, Chief Digital Officer, BNP Paribas Securities Services

From its original roots in bitcoin technology, innovators across a wide range of industries are quickly recognising the potential that blockchain offers to transform processes and information flows. Blockchain relies on a global ledger, distributed across a network of computers, and visible by all parties to a transaction. Each party has the same public and private key to agree the validity of the transaction and open the next block in the chain. As data cannot be altered, and is therefore irrevocable, blockchain offers considerable potential to deliver infrastructure for financial instruments.

BNP Paribas has been an early pioneer in exploring and exploiting this potential. In June 2014, we held our first hackathon which highlighted 14 opportunities to improve processes and business and create new business models. A year later, we created our blockchain lab for transaction banking services, including trade finance and treasury. This dedicated lab has enabled us to accelerate our efforts in this area, with internal, customer and external engagement. For example, we are part of the R3 consortium which comprises 42 banks who are working towards a distributed ledger for the financial sector and exploring a variety of use cases. We have also established a variety of partnerships with industry peers, associations, academics and fintechs. In April 2016, we formed a partnership with Smart Angel, a crowd funding/equity product using blockchain, which has already gained considerable industry and regulatory interest and support.
Payment cards are now widely adopted by corporations, particularly in areas such as expenses management, from travel and accommodation expenses incurred by individuals through to meeting and conference costs, incentives, entertainment, media and online expenses. Increasingly, however, payment cards are being superseded by virtual cards for these purposes.

Unlike physical cards, each virtual card number can be used for one transaction. There are two ways to obtain a virtual card number, either inputting the transaction details into a web application or, where spending is high, this process can be automated by linking the virtual card server and booking/expenses systems – exchanged between machines and pushed to suppliers. A variety of limits and controls can be set up, e.g., on amount, category, supplier, currency etc. so effectively, all virtual card payments are pre-authorised, Additional references such as the booking or purchase order can also be linked to the virtual card number for reconciliation.

Virtual cards therefore bring a range of benefits:

- Pay everywhere, across currencies and locations.
- Easy and secure. Security is offered on two levels, both limits on expenditure, and limits on the risk of fraud, as there is one number per transaction, with valid start and end dates.
- Payment on time. In some cases, such as in hotels, the card number has to be provided at booking time.
- Full traceability. The virtual card number itself, plus any additional references, allow tracking and reconciliation. Managers can also see where payments have not occurred, and as the card has an end date, it will not take place after this date.
- Consolidated view. By tracking spend per supplier etc., companies can tailor their purchasing policy.
- Working capital. The benefits are comparable with the other commercial card products, with expenditure consolidated into a single statement with one amount to pay the bank.
- Integration. Virtual cards can be integrated with internal systems to streamline the initiation, validation and reconciliation processes.
The potential to transfer value between counterparties on a near-or real-time basis is now being discussed actively in a number of countries globally, with some faster or instant payment schemes already in place. Looking at instant payments in euro, there are proactive initiatives under way to process payments in seconds on a 24/7 basis, 365 days a year. This is based on the existing SEPA Credit Transfer (SCT) instrument but through a separate scheme, SCTinst.

There are a variety of use cases where instant payments offer specific value. For example, while cards are very convenient, they cannot satisfy every requirement: the payment amount may exceed the card limit; the beneficiary may not accept cards, and they are typically not suited to person to person payments. Therefore, in the future, it is likely that cards and instant payments will co-exist, as happens today in countries that have already introduced instant or faster payment schemes. Instant payments also fulfil the need for time critical payments, particularly in industries where cash needs to be available for use very quickly. Instant payments will also offer comparable benefits to SCT such as irrevocability (except in the case of fraud), which is essential for payment on delivery transactions.

The Euro Retail Payments Board (ERPB) is strongly in favour of the development of instant payments, but this is being encouraged on a voluntary rather than a regulatory basis. The level of investment is also an issue. However, there is a strong trend towards ‘real-time’ both at a consumer and business level, and payments cannot be the obstacle to new ways of doing business. To be successful, instant payments need critical mass, and as a result, it is likely that some communities will go faster than others, rather than the whole of Europe. Over time, however, instant payments will become an intrinsic element of the payment landscape alongside existing payment types, enabling both individuals and businesses to engage and transact in new ways.

In the future, it is likely that cards and instant payments will co-exist.
Regulation and digitisation are having a profound impact on the information processed by corporate treasurers. We are seeing a number of newly digitised processes emerging, such as electronic bank account management (eBAM), know your customer (KYC) etc. with new formats and ever-increasing amounts of data that need to be stored and organised.

Data in treasury is derived from a number of data sources, which are often very specialised, including the ERP, treasury management system, trade finance systems, ePresentation, invoicing, receivables financing, FX platforms, purchase-to-pay and collateral management, amongst others. The specialised nature of these platforms, and the specific nature of the data they produce, creates silos that make it difficult to achieve visibility and control over the financial supply chain. This contrasts with treasurers’ aim to achieve end-to-end visibility, and structured information to automate reconciliation processes etc.

Data management technologies (‘big data’) are becoming instrumental in helping to manage and navigate data to establish full control/visibility over the financial supply chain, and build a more complete view of transactions and exposures, irrespective of the systems, formats, semantics and character sets in which data was originally presented. Furthermore, by adding algorithms such as artificial intelligence and predictive analytics on top of the core data, treasurers can gain better insights into the future and significantly enhance decision-making.
As consumers, we are all becoming more comfortable with the use of mobile devices for personal banking. Increasingly, we expect a similar level of convenience for corporate banking, so it is inevitable that mobile devices will play a growing role in connecting users and providers of payment and banking services. Banks are responding by developing mobile channels that create added value by extending business processes, integrating with existing systems and maintaining a high level of security.

There are a number of complexities in developing mobile channels for corporate rather than retail banking, not least that corporations operate internationally, so mobile banking solutions need to support the regulatory differences across locations. There are also technical considerations to address such as differences between operating systems, screen sizes etc. but these are all surmountable. More important is to ensure that users have access to the mobile capabilities they require. Users are currently looking for mobile access to facilitate decision-making for relatively simple but critical tasks such as payment approval and tracking sensitive payments, etc. Conversely, they tend to prefer to conduct more involved and complex tasks, such as analysing data through dashboards, via online banking platforms.

As a result, mobile devices and bank platforms will continue to develop, co-exist and complement each other to create a cohesive customer experience, combining convenience and sophistication.

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**A Connected Approach to Mobile Banking**

*Steven Lenaerts*, Head of Product Management Global Channels, BNP Paribas

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**Audience poll: What are your priorities for mobile treasury tools?**

- Payment approval: 61%
- Payment tracking/notification: 20%
- Cash position reporting: 9%
- Other: 9%

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Mobile devices and bank platforms will continue to develop, co-exist and complement each other.
Introducing SWIFTgpi
(global payments initiative)

Stanley Wachs, Global Head of Bank Engagement, SWIFTgpi
and Damien Godderis, Senior Product Manager, International Payments and Correspondent Network, BNP Paribas.

Corporate treasurers face a range of challenges when dealing with cross-border payments, not least tracking progress, calculating fees, pinpointing when funds can be used by the beneficiary, and identifying the invoice to which payments relate.

These prompted SWIFT to launch its global payments initiative (gpi) in late 2015. BNP Paribas was quick to recognise the value of gpi and was an early signatory, and 74 banks (as of July 2016) have now signed up. The key principles of gpi are to enable same day use of funds, transparency and predictability of fees, end to end payments tracking, by sending back a confirmation and the transfer of rich payment information. The new service will help corporates grow their international business, improve supplier relationships, and achieve greater treasury efficiencies. In addition, banks will have the ability to track payments end to end using a payments tracking database, hosted at SWIFT, using a unique identifier across the messages. Underpinning gpi is a new set of business rules between banks, which is currently in a pilot phase, with the results due to be launched at Sibos 2016 in Geneva. In parallel, SWIFT is launching a five year vision for correspondent banking to define a strategic roadmap that will bring significant new value and cost reductions for payment users beyond 2017.

Audience poll: What element of gpi is most valuable for your business?

- Transfer of rich information: 13%
- Transparency of fees: 19%
- Same day use of funds: 27%
- Predictability and payments tracking: 38%

As a result of these ‘lightning’ sessions, corporate participants indicated that they felt far more engaged with some of the emerging themes that have the potential to transform processes and technology in treasury and the wider cash management landscape. In particular, attendees emphasised that SWIFT’s global payments initiative (gpi) and instant payments appear to offer the most compelling proposition at this stage, highlighted by 38% and 23% of the audience respectively. Furthermore, participants emphasised that it was important for their cash management bank to play a leading role in driving and engaging with industry innovations that will lead to solutions providing greater efficiency, control and competitive advantage.
In addition to the formal plenary sessions and workshops, the Cash Management University launched its ‘open stage’ in 2016 in which participants could present, engage with, and debate the issues that they were dealing with in their organisations. One of these open stage sessions featured Michel Verholen, Director of Zoetis’ Global Treasury Centre, who described how treasury had supported and reinvented itself as a result of the company’s spin-off from Pfizer. Vincent Roskam, Key accounts manager for cash management in EMEA for BNP Paribas also added his comments.

Pfizer’s animal health business developed substantially during the sixty years from the 1950s, when the corporation first entered this sector, through to 2012 when the decision was made to spin off the business into a separate company, Zoetis. Throughout its history, both as part of Pfizer and as an independent corporation, Zoetis has been characterised by its innovative approach to research, acquisition and international growth, developing the medicines, vaccines and diagnostics that keep both livestock and companion animals safe and well across more than 100 countries. Today, we generate $4.8bn in annual revenue through more than 300 products for eight animal species, and employ a workforce of more than 9,000 globally.

Building a treasury framework

Treasury was inevitably one of the business functions most affected by the decision to spin off Pfizer’s animal health business into Zoetis. Not only did we have to manage the process of dividing up assets and liabilities, and setting up new bank relationships, accounts and liquidity structures without interrupting our core business activities, but we also needed to establish a treasury function that could manage the ongoing needs of a large, global, acquisitive corporation.

We had the opportunity to leverage Pfizer’s technology platform for a period of time following the spin off, but we needed to design a new treasury function that would support both short- and longer-term objectives. We aimed to automate our treasury processes wherever possible by implementing a single treasury management system (TMS) which would capture all of our treasury transactions, provide a cohesive control environment and facilitate the smooth integration of transactions...
between our banks and our internal systems. Pfizer has a highly centralised treasury organisation, but we wanted to take this even further by implementing a fully centralised treasury and banking model. This would give treasury full control over cash and financial risk management processes, and facilitate automated cross-border cash concentration, working with a maximum of four regional cash management banks around the globe. We had a three-year rollout programme for a global ERP, which enabled us to put in place a strategy to fully standardise and automate straight-through processing (STP), leveraging SWIFT for bank communications, and achieve a consistent approach to managing exposures and cash flow forecasting information.

**Project progress**

In the three years since the spin-off, we have achieved a number of key successes against these objectives. We have set up a new treasury centre infrastructure, and selected and implemented a new TMS. We have also established a SWIFT connection, and designed and rolled out a new cash management structure. More widely across the business, we have completed our ERP implementation, including building interfaces between treasury and our business operations, and aligned our processes with our ERP and our new shared service centre.

As part of the development of our cash and treasury management infrastructure, we appointed BNP Paribas as our primary cash management bank for Europe, Africa and the Middle East. BNP Paribas has been instrumental in our success in setting up a new treasury function and supporting the liquidity and risk management needs of the Zoetis business. In particular, the bank has been able to support our strict project timetable, and provide a consistent approach to solutions, contracts and service levels. We simultaneously rolled out similar structures with our cash management banks for the other regions, so it was important for us to co-ordinate activities and achieve consistency across each region. We have also been grateful for the level of personal support and the quality of the relationship with our key contacts, such as Vincent Roskam.

The scope of our relationship extends to 23 countries, of which ten are euro-based countries. We have implemented 49 legal entities with a total of 144 accounts, with four more pending. We transferred our legacy accounts from Pfizer, so the closure of these accounts is ongoing. We connect to SWIFT for accounts payable and receivable, including local instruments as well as SEPA payments/collections through our ERP. Our bank communication is now centred through a global electronic banking platform with central administration, supported by two local electronic banking platforms to support specific local requirements. Bank communication, from payment initiation through status reporting and bank statements, is based on standardised XML formats.

From a liquidity management perspective, we have automated zero-balancing both in-country and cross-border as appropriate in Euro, USD, GBP, HUF, CHF and CZK, plus local cash pooling in PLN. We have also achieved a standardised process for domestic flows in most cases, with the remainder due to be harmonised shortly.

**Delivering success**

Although it has been an intense project given that every element of our treasury function is new, we have been very successful in meeting our original treasury design objectives, and delivering value to the Zoetis business. By streamlining our bank relationships and centralising liquidity, we have reduced our banking costs and by optimising working capital, we have also reduced borrowing costs. We have efficient, automated, standardised processes, while also reflecting local nuances, and by leveraging a single platform, we have a centralised view of cash, risk and operations, and a consistent approach to security, control and audit. Furthermore, by building a new treasury function, we have been able to implement a global approach to core contracts and a harmonised contract base, providing better governance at a group level.

**Vincent Roskam, Key accounts manager, Cash Management, EMEA, BNP Paribas**

“We have been proud to support Zoetis through this exciting but challenging period, and we have forged strong relationships both with group treasury and with local business units. For a multinational business such as Zoetis, the quality and consistency of solutions and services at both a regional and local level is essential, so the depth and breadth of our pan-European network has been invaluable. There are few situations in which a company can build a treasury function from scratch, as Michel and his team have done, but it is important that all treasuries look at their business with an open mind to identify opportunities to enhance and potentially transform their activities, and find ways to create value for the enterprise.”

**A cohesive culture**

A project of this scale, scope and intensity inevitably brings challenges, the most difficult of which are often related to the building of a new team. Ultimately, our treasury team has very little overlap with the previous team derived from Pfizer. It has therefore been very important to shape a business culture that reflects Zoetis’ energy, innovation, integrity and professionalism and help each individual to be proud and passionate about the contribution they make to a thriving global business. Looking ahead, we are now able to work with BNP Paribas to leverage the cash management framework we have implemented to achieve further centralisation and harmonisation through solutions such as payments on behalf of (POBO) and collections on behalf of (COBO).
Another of the Open Stage workshops featured Raffi Basmadjian, Deputy Treasurer of Orange, who is well-known across the treasury profession for the pioneering approach that he and his team have taken towards centralisation and optimisation of liquidity and risk. He was joined by Filipe Simao, Head of Client Advisory and Strategic Marketing, BNP Paribas Cash Management who provided expert insight into in-house banking best practices.

In-house Banking: The Ultimate Treasury Centralisation Model?

by Raffi Basmadjian (right), Deputy Treasurer, Orange and Filipe Simao (left), Head of Client Advisory & Strategic Marketing, BNP Paribas Cash Management

In-house banks typically support the group either at a regional or global level.
Filipe Simao began by describing how the in-house bank is often the culmination of treasurers’ centralisation journey. In-house banks typically support the group either at a regional or global level across a range of activities that mirror those of a bank, including: netting; intercompany finance; cash and liquidity management; financial risk management; centralised payments and centralised collections (figure 1). He emphasised, for example,

*By implementing an in-house bank that incorporates functions such as centralised*

payments and collections, companies can implement ‘in the name of’ or ‘on behalf of’ structures which enables them to streamline processing and reconciliation, minimise the number of external bank accounts and simplify cash and liquidity management. In-house banks also offer significant advantage in managing operational and financial risks. For example, companies can net their FX exposures to create a group risk position, identify natural hedges, and hedge risks in the market more cost-effectively.”

**Orange was an early adopter of in-house banking, a major element of which has been intercompany netting.**

A mature in-house banking operation

Orange was an early adopter of in-house banking, a major element of which has been intercompany netting. In 2003, for example, when the in-house bank was first established, 12 entities located in one country participated in the netting process in one currency. In 2016, this had grown to 184 subsidiaries across 44 countries and 20
INNOVATION IN CASH MANAGEMENT

Fig 2: Summary: Typical benefits of an in-house bank

- Increased visibility and control over group cash and transactional flows
- Streamlined bank account structure
- Reduction of banking fees and margins
- Improved liquidity management by centralising cash across the group, reducing cost and need for borrowing and expanding investment opportunities
- Improved risk management by consolidating exposures, identifying natural hedges and hedging at a lower cost
- Improved cash and exposure forecasting
- Better operational controls through consistent platforms, processes and security protocols
- Greater ability to tackle security risks by minimising manual processes and limiting the number of payment points within the group.

Achieving operational and organisational objectives

Managing cost and maximising control are key objectives for Orange and the in-house bank is instrumental in achieving this. Raffi concludes,

"By sharing the same organisational tools across the business, we can standardise and ensure the integrity of our processes and controls, and make use of consistent, secure channels and protocols such as SWIFT and 3SKey. Furthermore, by centralising cash and investments, we can take a more systematic approach to investment management and ensure compliance with treasury policy as opposed to fragmenting assets across entities."

Finally, Raffi emphasised that the in-house bank has a key role to play in an era where tackling cybersecurity and external fraud is a priority for treasurers globally. Use of a common platform, standardised processes and controls is one key step. Furthermore, by centralising and digitising key activities such as payments, the number of points across the business where cash disbursements are made is minimised, making it easier to ensure that users are kept up to date with emerging risks, and that controls and processes are followed precisely and fully.

The in-house bank has a key role to play in an era where tackling cybersecurity and external fraud is a priority for treasurers globally.
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