

TMI Spotlight on Germany: Priorities, Opportunities and Innovations in Corporate Treasury

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With growth rates in Germany continuing to strengthen, corporations headquartered or operating in Germany are optimistic about the prospects ahead. At the same time, global economic and political volatility and, closer to home, the UK's intention to exit the European Union creates challenges and uncertainties. In an environment in which confidence is balanced with caution, what are corporate treasurers' priorities, and how are they equipping their organisation for the challenges and opportunities ahead?

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Centralisation: a compelling proposition

Centralisation has been a priority for large corporations for a number of years, particularly in areas such as liquidity management, risk management and bank relationships. This continues to be the case, but the opportunities and benefits for a broader range of organisations are becoming more compelling, particularly in areas such as regulation, fraud and cybersecurity, and managing bank risk and relationships. While these issues are significant for large corporations, they are equally important for mid-cap (Mittelstand) corporations.

For example, the regulatory burden and risk of non-compliance is continuing to increase, so managing activities such as 'know your customer' (KYC) centrally can help to establish a consistent approach, leverage experienced resources and manage regulatory risk. Treasurers are also becoming increasingly conscious of cyber- risk and fraud originating from outside as well as within the organisation.

Centralisation of key processes, controls and data management is often a key way of achieving consistency across the business and avoiding security and process 'loopholes'. Partner banks also have an important role to play in securing transactions, identifying and querying anomalies.

Treasurers and banks alike recognise that the better and closer the relationship between the two, the more successful they can be in avoiding, identifying and blocking fraudulent transactions. Security is therefore a key driver for centralising and rationalising bank relationships, typically to two or three banks. Few corporations, whether large or medium-sized corporations, are prepared to appoint a single bank partner, preferring instead a select panel of banks, covering specific regions or business activities. The benefit of this approach, particularly when working with global banks, is the ability to switch banks if necessary – whether for pricing or risk reasons, or a change to bank or corporate strategy in a region or product line.

This marks a significant change for many Mittelstand corporations.

Traditionally, many of these businesses worked with a large number of bank partners, often

local and regional banks. Today however, concerns over the impact of bank exits, the need to implement consistent, reliable operational controls, and the desire to increase efficiency and productivity are driving Mittelstand treasurers to review and rationalise their bank relationships, and centralise processes and controls.

Extending the opportunity

For these Mittelstand companies, it is not only the drivers that are changing, but also the opportunities. Consistent payment methods and formats across SEPA (Single Euro Payments Area) make it easier to standardise and centralise processes in Europe, while the growing global use of XML ISO 20022 formats (on which SEPA formats are also based) is extending this opportunity further.

Secondly, the technology used to realise these opportunities is becoming more accessible to treasuries of Mittelstand firms. While the budgets and resources required to implement specialist treasury management technology have been limited to large corporations in the past, the availability of cloud-based and SaaS (Software-as-a-Service) solutions are reducing the cost and resource burden for mid-cap companies. Furthermore, while the multi-bank connectivity channels such as SWIFT have been the domain of large corporations, SWIFT's cloud-based Alliance Lite2, which is often integrated within SaaS solutions, makes SWIFT connectivity more accessible for a wider spectrum of companies. Most German companies are familiar with EBICS, the domestic payment protocol, so many *Mittelstand* corporations are enthusiastic about the opportunity to extend the use of EBICS globally through BNP Paribas' Global EBICS offering. This is cost-effective and very straightforward to implement, for mid-cap companies. Furthermore, while the multi-bank connectivity channels such as SWIFT have been the domain of large corporations, SWIFT's cloud-based Alliance Lite2, which is often integrated within SaaS solutions, makes SWIFT connectivity more accessible for a wider spectrum of companies. Most German companies are familiar with EBICS, the domestic payment protocol, so many Mittelstand corporations are enthusiastic about the opportunity to extend the use of EBICS globally through BNP Paribas' Global EBICS offering. This is cost-effective and very straightforward to implement, with the ability to access banks globally.

SEPA is proving a catalyst not only to centralise and rationalise bank relationships and connectivity, but also to optimise cash management structures.

Now that treasurers have migrated to, and 'bedded down' SEPA payment instruments and formats, they are looking at opportunities to extend the value of SEPA further. This includes testing concepts such as payment and collection factories, often on an 'on behalf of' basis. These structures may have technology, legal, tax, regulatory and cultural implications in some regions, but offer significant potential to rationalise and streamline bank relationships and accounts, and optimise payment and collection processing and reconciliation.

Innovation and change ? real time will be the future

Tools such as virtual IBANs can be instrumental in realising the benefits of collections on behalf of (COBO) structures. Virtual IBANs and instant payments are among the emerging solutions that have the potential to transform cash and working capital management and accelerate the financial supply chain.

Virtual IBANs, for example, allow for rapid, automatic reconciliation of incoming payments and posting to customer accounts, freeing up credit limits and facilitating more business. Instant

payments could have a significant impact on working capital, credit risk and supply chains for many industries. They will also have a wider impact, as banks and vendors are increasingly being challenged to create 'instant' information flows to support instant payments, leading to an acceleration of real-time, end-to-end flows.

There is a great deal of media coverage dedicated to the growing role of 'fintech' vendors in the treasury and finance space. However, while the solutions of these companies may be interesting and original, in the past their focus had been more on the retail rather than corporate space. Solutions introduced by small, start-up technology companies start to attract the interest of corporates, but there are still concerns over security and ongoing viability. In the future, it is more likely that banks will partner with innovative fintechs that offer complementary solutions and deliver additional, complementary features that enhance treasurers' experience, helping to achieve the 'end to end' visibility and automation that treasurers are seeking. New technologies such as blockchain are also being discussed more widely. For most corporations, these emerging technology innovations that are often still in an evaluation phase will not have an immediate impact on their business models or processes, but over time, the value they add to corporate treasury will become clearer.

Delivering success

In the meantime, the focus for many Mittelstand companies – and larger corporations too – is to create the business case for projects that have the potential to transform the way that treasury operates today, using solutions and structures that are already proven, whilst anticipating further innovation ahead.

Working successfully with trusted banking partners is key to these initiatives. Consequently, a growing number of treasurers are seeking a similar client management approach to their larger peers, including a single point of contact for each business line, rather than maintaining contact in each region. This is consistent with the way that BNP Paribas is organised, with business centres in eight major cities in Germany. These centres offer proximity and direct contact with their customers, whilst being closely connected within the BNP Paribas network to co-ordinate the bank's services globally.

Inevitably, there can be no 'one size fits all' approach to addressing the challenges faced by treasurers in Germany, given the diversity of organisations' industry, business model, geographic footprint, organisational structure, technology and culture. However, centralisation and digitisation are likely to remain priorities for treasurers of companies of all sizes to increase efficiency and productivity, tackle financial and operational risk, and position treasury as an effective, value-added partner to the business.

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