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Through our website and thought leadership magazine, Flow, we deliver timely insights about the world of transaction banking and our role within it. Whether it is an important piece of research, graphics that provide greater clarity on key issues or transaction case studies, our stories – written by both internal and external experts – are tailored for corporate and institutional clients worldwide.

We hope you enjoyed this issue of Flow and we welcome your feedback.
<table>
<thead>
<tr>
<th>Page</th>
<th>Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>INFLOW</td>
<td>The latest developments from the global transaction banking sphere</td>
</tr>
<tr>
<td>6</td>
<td>LIQUIDITY MANAGEMENT</td>
<td>Today’s financial environment is in stark contrast to the pre-crisis landscape for bankers and treasurers</td>
</tr>
<tr>
<td>7</td>
<td>US ELECTIONS</td>
<td>Why the US Senate elections are worth following</td>
</tr>
<tr>
<td>10</td>
<td>FLIGHT PATH TO PROGRESS</td>
<td>Key figures at Lufthansa discuss the success of the payment factory system</td>
</tr>
<tr>
<td>14</td>
<td>FACING THE TIPPING POINT</td>
<td>Michael Spiegel discusses how the banking world is coping with current economic unrest</td>
</tr>
<tr>
<td>16</td>
<td>A LANDSCAPE IN FLUX</td>
<td>This year’s Sibos conference will explore the latest payments and securities industry trends</td>
</tr>
<tr>
<td>18</td>
<td>MODERN TREASURER</td>
<td>The role of the treasurer is becoming increasingly pivotal to organisations</td>
</tr>
<tr>
<td>22</td>
<td>NEGATIVE RATE ENVIRONMENT</td>
<td>The importance of adapting cash management strategies for corporates</td>
</tr>
<tr>
<td>26</td>
<td>EVOLUTION OR REVOLUTION</td>
<td>The European Central Bank on distributed ledger technologies</td>
</tr>
<tr>
<td>28</td>
<td>BUILDING THE SANDBOX</td>
<td>The Financial Conduct Authority on its innovation initiative, Project Innovate</td>
</tr>
<tr>
<td>30</td>
<td>THE AGE OF INNOVATION</td>
<td>Deutsche Bank’s innovation labs promote technological advances in the Fintech era</td>
</tr>
<tr>
<td>32</td>
<td>BUYING TIME ON COMPLIANCE</td>
<td>The latest developments in industry regulation</td>
</tr>
<tr>
<td>34</td>
<td>CYBER CRIME</td>
<td>The importance of cyber security in the banking sector</td>
</tr>
<tr>
<td>36</td>
<td>CHINA AND THE REMNIMBI</td>
<td>How the world’s second largest economy is dealing with a period of uncertainty</td>
</tr>
<tr>
<td>38</td>
<td>FEEDING AN IMPERATIVE</td>
<td>Why Knowing Your Customer processes are key in protecting banks and their clients</td>
</tr>
<tr>
<td>40</td>
<td>AUTOMATICALLY, SIMPLE</td>
<td>Banks are developing foreign exchange automation tools to provide clients with more control</td>
</tr>
<tr>
<td>42</td>
<td>LAST WORD</td>
<td>The days of cash might be numbered</td>
</tr>
</tbody>
</table>
More banks sign up for SWIFT’s global payments innovation initiative

SWIFT has had 78 banks worldwide join its global payments innovation initiative, designed to improve cross-border payments. Recent additions include ICICI Bank and Axis Bank, the first Indian banks to sign up.

The initiative will see banks enhance their approach to cross-border payments and follow strict business rules designed by SWIFT and participating banks. Banks in the initiative will be able to give their corporate clients same-day use of funds, transparency of fees, end-to-end tracking, and transfer of rich payment information.

SWIFT is developing a database in the cloud to give end-to-end visibility on the status of a payment transaction, from the moment it is sent until it is confirmed.

MasterCard to acquire Vocalink

MasterCard has entered into a definitive agreement to acquire 92.4% of Vocalink Holdings for about £700m (approximately US$920m), after adjusting for cash and certain other estimated liabilities. Vocalink’s existing shareholders have the potential for an earn-out of up to an additional £169m (approximately US$220m), if performance targets are met.

The transaction is subject to regulatory approval and other customary closing conditions. Under the agreement, a majority of Vocalink’s shareholders will retain 7.6% ownership for at least three years. Based in London, Vocalink operates key payments technology platforms on behalf of UK payment schemes, including:

- BACS, the automated clearing house (ACH) enabling direct credit and direct debit payments between bank accounts.
- Faster Payments, the real-time account-to-account service enabling payments via mobile, internet and telephone.
- LINK, the UK ATM network.

In addition, Vocalink offers products such as ZAPP, a mobile payments app that uses fast ACH technology, and licenses its software and provides services to support ACH activities in Sweden, Singapore, Thailand and the US*.
EBA Clearing reveals specifications for impending pan-European instant payments system

EBA Clearing has made available the specifications for its future pan-European instant payment solution scheduled to go live in November 2017. This initial set of detailed documentation, which covers the functional description and the interface specifications, will support future users in their preparations for the connection to this new solution. All payment service providers (PSPs) interested to prepare for joining this service can request access to the documentation via the EBA Clearing website.

The objective of the company’s instant payment project is to deliver a liquidity efficient pan-European instant payment service, compliant with the SCT Inst scheme of the European Payments Council (EPC) and in line with the user requirements defined by a large group of interested stakeholders. This first set of specifications for the company’s new service has been completed by EBA Clearing in co-operation with the future users that have committed to funding the development and implementation of the solution.

HKMA and PBoC launch cross-border e-cheque clearing facility

The Hong Kong Monetary Authority (HKMA) and the Guangzhou Branch of the People’s Bank of China (PBoC) have launched joint e-cheque clearing between Guangdong Province (including Shenzhen) and Hong Kong. The implementation of a joint e-cheque clearing facility is evidence of the collaborative efforts of the HKMA, the Guangzhou Branch and Shenzhen Central Sub-branch of the PBoC to enhance the efficiency of cross-boundary payments between Hong Kong and Guangdong Province.

Under the arrangement, e-cheques issued by banks in Hong Kong and deposited with banks in Guangdong Province (including Shenzhen) will be settled on the next business day. In the initial stage, nine banks in Hong Kong allow their customers to issue e-cheques, while 22 banks in Guangdong Free Trade Zone and 28 banks in Shenzhen allow e-cheques to be deposited through the online portal. It is expected that the number of banks offering an e-cheque issuance service in Hong Kong and accepting e-cheque deposit in Guangdong Province will gradually increase.

Australia looks to implement national e-invoicing standard

An Australian joint private-public council has approved the final framework for implementation of a national standard for e-invoicing. The Australian Taxation Office (ATO) has supported the standard, following the creation of the Digital Business Council, an industry-run joint body charged with building a national framework of standards for the processing of electronic invoices.

Following months of consultation, the council approved a framework. This dictates the use of the ISO-approved OASIS universal business language (UBL) XML specification for messaging and eBMS 3.0 standard for transport (the same as used for the ATO’s SuperStream scheme). Full implementation is expected to be supported by software products in 2017.

The framework is not mandatory, so the Digital Business Council is relying on invoicing software vendors, banks and other stakeholders to implement the standards independently.
Before the crash, liquidity was not an issue. Borrowing came easily and depositing excess cash was second nature.

The 2008 financial crisis has created a ‘new normal’. This has impacted the viable options for corporate liquidity management.

2007
Before the crash, liquidity was not an issue. Borrowing came easily and depositing excess cash was second nature.

Australia* 6.75%
UK* 5.75%
US* 4.25%
Germany* 4%
Japan* 0.5%

2008
The 2008 financial crisis has created a ‘new normal’.

Negative interest rates made holding cash costly
Regulatory pressures (MiFID II, Basel III) require more capital
Geopolitical and economic pressures creating highly volatile markets

This has impacted the viable options for corporate liquidity management.

Bountiful cash deposits in this new world.

2016
Thanks to these pressures, many corporates are hoarding cash. However, low interest rates mean this is costly for corporate treasurers to hold.

Australia 1.5%
US 0.5%
UK 0.25%
Germany 0%
Japan -0.1%

Sources: * Dec 2007, interest rates according to investing.com/central-banks
The presidential tussle between Clinton and Trump is not the only US election you should have your eye on this November.

The 2016 US presidential race between Donald Trump and Hillary Clinton may have the dubious distinction of being between possibly the two least popular candidates ever. But while Trump and Clinton lead the headlines, the November congressional elections for the Senate and the House of Representatives are equally intriguingly poised.

Presidential pointers
Ohio, Pennsylvania and Florida are three key presidential battleground states. Interestingly, the polls before the conventions had Trump either ahead or very competitive in those states. “What is interesting here is that it was expected he might have a post-convention bounce of support, but not a pre-convention bounce,” says Frank Kelly, Global Co-ordinator for Public Affairs, Head of Government and Public Affairs for North and Latin Americas, and Chief Political Risk Strategist at Deutsche Bank. “I can’t remember the last time I’ve seen a pre-convention bounce. This is somewhat disconcerting for the Clinton campaign,” says Kelly, in the call hosted by Susan Skerritt, Head of Global Transaction Banking Americas and Global Head of Institutional Cash Management.

This early bounce for Trump had a couple of key drivers. Following the Dallas shootings, Trump had good visibility claiming he is the law and order candidate, while Clinton did not really come back at that. In addition, Supreme Court Justice Ruth Bader Ginsburg made several remarks about Trump’s character that hit the headlines. “I’ve never seen a sitting Justice do that,” says Kelly. “It plays into the perception that Washington elites would be anti-Trump, which could attract support for him simply because of that.”

If your preference is not for Trump, then there are certainly reasons to find optimism in the Clinton campaign also. “If you look at the fundamentals, they are saying to me that Hillary Clinton could emerge as the winner,” says Kelly. “She has got the ground game, and she’s got President Obama...”
Senate polling should be an indicator for how the race plays out

— who is above 50% in the approval ratings — out campaigning for her. Plus the Obama machine is going to kick in. This was strong in Florida, Ohio and Pennsylvania, the three battleground states.”

Senate struggles

As with the presidential race, the Senate races in Ohio, Pennsylvania and Florida are key. Florida is much more of a plus for Trump now that Marco Rubio — having been defeated by Trump in the race to be Republican presidential nominee — is in the race for the Senate and is likely to get re-elected. “He can potentially be a positive for Trump in the state,” says Kelly. “In Pennsylvania, incumbent Pat Toomey is in a tough fight — though he’s running a good campaign. Meanwhile, in Ohio, there’s Rob Portman — a very moderate Republican who used to be the head of the office of management and budget under President Bush, and a former US trade representative, who’s having a tough re-elect.”

In all those three states, the Senate polling should be an indicator for how the presidential race plays out. One thing that may give the Democrats a chance of taking control is the make up of the seats that are up for re-election. “Of the 33 seats up for re-election in the Senate this year, 24 of them are held by Republicans,” says Kelly. “It is just hard to hold on to that.”

Two dominant Senate players have emerged that are yet to have the opportunity to legislate and drive the legislative agenda. The first of these is Bernie Sanders. Technically, Sanders is not a Democrat, rather he is an independent socialist who caucuses with the Democrats. Sanders’ chances of becoming the chairman of the Health, Education, Labor, and Pensions (HELP) committee have been boosted by his willingness to support the Clinton campaign since losing the race for the Democrat nomination. This powerful committee touches on any legislation in the Senate. It would not be a surprise to see Sanders looking to expand Obamacare and to bulk up on workers’ rights by pushing the minimum wage through the Senate.

The second key player is Senator Elizabeth Warren from Massachusetts. She is a relative newcomer, having been elected to the Senate in 2012. She is already in Senate leadership and if Democrats win control of the Senate she will have the number three position in the Senate. The Senate majority leader will be Senator Chuck Schumer from New York, as the current Democratic head, Harry Reid, is retiring.

As a result, there is the potential for the Senate to move to the left in terms of a number of issues affecting:

» The expansion of Dodd-Frank. Look out for Dodd-Frank 2.0 to go after shadow banking, the insurance industry and the mutual fund industry.
» Expansion of the Affordable Care Act.
» A push to revamp the tax structure.

The final point is interesting because the constitution has a clause that all tax legislation has to come from the House of Representatives. So, while the Senate may push for it, it is not allowed to be the first mover on tax legislation.
Corporate and international tax reform could be teed up quickly

“Both of those issues could get teed up very quickly and be interlinked in 2017,” says Kelly. “The way to pay for infrastructure reform in a large way is by repatriation of offshore earnings and earmarking all of the tax money that comes back from that for the infrastructure spending. Speaker Ryan and Secretary of Treasury Jack Lew have been quietly working on this for over two years. I could see Clinton getting those things done.”

Kelly also says that both of these issues can get done if Trump wins as well: “There is no way that Donald Trump wants to be seen historically – if he is elected president – as a failure. My expectation is he will come to town, work both sides of the aisle, wanting to get deals done and things that actually matter to Americans going forward, including infrastructure and tax issues. If he isn’t seen to get deals done, he would be immediately marginalised as a failed president within months, if not within the first year.”

Even if you are strongly opposed to one, or indeed both, of the presidential candidates, from a market perspective there are positive outcomes possible in the event of a victory for either. “There should also be a fiscal stimulus to be seen here in 2017-2018,” notes Kelly.

Words: Ben Poole
Flight path to progress

Household name Lufthansa has a long-standing and far-reaching relationship with Deutsche Bank. Neil Jensen speaks to Project Head Carlos Scheeren and Head of Treasury Torsten Kohrs about one element of this relationship - cash management - and the success of the payment factory system.
For Lufthansa, there were clear benefits and quick-wins to be gained. “We had 1,500 active bank accounts across the Lufthansa Group, with almost 800 at more than 100 different banks. This was a very complicated arrangement and involved using numerous eBanking solutions across multiple banks,” recalls Head of Treasury Torsten Kohrs.

**Cash management**

Back in 2011, Lufthansa focused on its main cash management bank providers, with almost 50% of the company’s accounts held with Deutsche Bank and Citi. This was also reflected in the use of db-direct and Citidirect as the centralised systems of choice.

But upon examination, Lufthansa recognised that its processes around cash management and payments remained too fragmented. Enterprise Resource Planning (ERP) systems, while mostly dependent on SAP, also included a plethora of smaller companies as well as decentralised eBanking solutions derived from other banks. In many ways, Lufthansa was already operating a quasi payment factory, but it was limited and only included SAP-based companies (some 25) and just three currencies: euros, British pounds and US dollars. Other currencies were executed as cross-border payments.

“We had no standardised data and very little daily transparency of liquidity around bank accounts,” says Kohrs. “And considering the increasingly complex and heightened regulatory environment for payments, we identified that it would be necessary to establish a standardised payment factory solution and to centrally manage global payment transactions for all Lufthansa group companies.”

Within Lufthansa, Carlos Scheeren was appointed leader for the Payment Factory Project, but it was a cross-organisational exercise to kick off a preliminary study and selection process. “This was a two-year project that not only looked at our current situation, but also allowed us to exchange ideas with, and learn from, other major DAX groups that had already implemented a payment factory,” says Scheeren.
Following a comprehensive study of providers that could meet Lufthansa’s requirements, notably around quality of software functionality, cost efficiency and compatibility, Hamburg-based Hanse Orga was selected as the system provider. Hanse Orga describes itself as a ‘one-stop shop for SAP-integrated solutions, multi ERP software and comprehensive consulting’. Scheeren explains: “We needed a high degree of software flexibility and SAP-integrated processes across our accounting. Hanse Orga demonstrated this in the workshops and won the mandate.”

So what were the principal aims of the Payment Factory Project? Put simply, it was about the implementation of bank-independent software between ERP systems across the Lufthansa Group on one-side and banks on the other side, to achieve a number of efficiencies.

These include the automated central retrieval of electronic bank statements for all affiliated companies, with the ultimate goal of improving daily transparency of liquidity of the entire group’s external accounts. Furthermore, Lufthansa was looking to centralize outgoing vendor payments with harmonised processes and formats, such as replacing current eBanking solutions.

Equally important was the need to harmonise Lufthansa’s banking landscape. As well as Deutsche Bank and Citi, HSBC and Societe Generale were to be added to the company’s banking group. With regard to Lufthansa’s cash management banks, full integration is performed using the new host-to-host connections provided by Hanse Orga.

**Standardised processes**

The host-to-host connection is used for all integrated accounts of Lufthansa’s participating group companies. Account information is transmitted daily via a central interface, but on the other hand, payment orders are received in a global format and forwarded for processing. “Where possible, with regard to legal and taxation regulations, ‘on behalf’ payments are made, which enables the processes to be standardised and optimised as far as possible. This has ensured effective central management of payment flows and liquidity management,” says Scheeren.

Lufthansa has already derived significant benefits from the payment factory. “We have a central overview of liquidity across all accounts, with cash management banks as well as a large number of third party bank accounts not integrated into a cash pool that are collected through SWIFT via receipt of MT940 files,” reveals Scheeren. “These are channelled through the Hanse Orga system and then made available for further processing and distribution to the ERP systems of the group companies.”

By using the payment management module, payment orders are transmitted centrally in the standard ISO 20022 CGI-MP (Common

Carlos Scheeren joined Lufthansa AG in 2006 as manager of Liquidity and Risk Management, Group Finance. He became head of payments and back office in 2009 and took on the payment factory role in January 2014.
Considering the increasingly complex regulatory environment, we identified that it would be necessary to establish a standardised payment factory solution.

Global Implementation Market Practice

XML format via the host-to-host interface to Deutsche Bank. The payment orders themselves are created using payment optimisation tools integrated into SAP.

In the case of predefined formats derived from diverse upstream systems, these are converted to XML format through the Hanse Orga solution and then transmitted directly to Deutsche Bank.

One of the big advantages of the type of host-to-host connection provided by the Hanse Orga/Deutsche link-up is that it allows clients to send and receive data in an automated and secure manner. The service supports various levels of communication, encryption standards and compression options. It also supports the automated authorisation of transaction files on the basis of a corporate seal. This seal represents an automated, non-personalised signature, which is integrated into the technical data transfer process.

From the Bank’s perspective, there is no longer a need to set up individual authorisation profiles and the payment releases within the Deutsche Bank systems are no longer required. Personalised release processes are carried out in advance in the payment factory.

Early benefits

Given that the integration of systems was a relatively seamless operation, Lufthansa was able to benefit from this cash management solution almost immediately.

Walter Genter, Senior Sales Manager in Deutsche Bank’s Cash Management

Corporates, says: “The effective implementation of this forward-looking project was attributable to collaboration across Hanse Orga, Deutsche Bank and Lufthansa. A combination of joint analysis and consultation was instrumental in the successful execution of an important project for a major client.”

The new structure was tested with a pilot phase at Lufthansa’s training and conference centre, which included the realisation of euro SEPA payments via Deutsche Bank.

Then came the migration of the central payment run with 29 participating companies and 5,000 payments per week totalling EUR 100m. During this process, euros (SEPA direct debits), US dollars (Wire, CCD, Worldlink) and British pounds (BACS) were realised through the payment factory. Subsequent stages incorporated the Wings Group (Germanwings, Eurowings), Lufthansa AG, Lufthansa Cargo AG and all remaining currencies and payment methods. “We are currently rolling out Deutsche Bank’s FX4Cash service for ad-hoc currency payments and collections with euro accounts,” says Scheeren.

Lufthansa is now realising the impact of its new payment factory, which has the potential and necessary ingredients to evolve into an in-house bank. In fact, the realisation of payment and in-house bank processes has mostly been completed already. Around 300 Lufthansa companies are presently in scope of the payment factory.

The system can be customised for manual payments, salary payments and cheque management, and they have already attained more efficient ‘on behalf of’ payments. In addition, they have improved information flow of central finance clearing accounts to all affiliated companies.

”The Lufthansa group now has an efficient and future-proof solution,” says Scheeren. “This was a complex structure to deal with, but we have not only solved our immediate requirements, but we have also built something that is scalable and equipped for expansion.”

Torsten Kohrs has worked with Lufthansa AG since 2001, when he joined as manager of Risk Management. He has been head of treasury at the company since August 2014.
The global economy is in the midst of a highly uncertain period, not least due to Britain’s decision to leave the EU. Michael Spiegel, Head of Deutsche Bank’s Trade Finance and Cash Management Corporates speaks to Neil Jensen about how the banking world is coping with the unrest.
It is common knowledge that the global economy is very volatile at present and uncertainty is weighing heavily on the markets. The banking industry is going through considerable turmoil, notably in Europe, where the backdrop is poised to become even more challenging. Brexit has merely added to the cocktail of underlying issues that have to be dealt with for Europe to return to sustained stability.

Obviously, this is likely to impact our clients and business. Perhaps we should not be too surprised about the state of play in 2016. To some extent, we have reached a tipping point in the global economy where a number of megatrends are currently at various stages of their life cycle.

Trends gather pace
In my previous article in Flow, I talked of the “inflection point” of the trade and cash business – what we are seeing today, however uncomfortable we might feel about it, is a continuation of that story. The megatrends of heavy regulation, technology, the stagnating economy and geopolitical imbalances, have all gathered momentum this year.

These trends are placing great pressure on banks and also corporate treasurers. We are all part of the same eco-system, after all, so we all share the good times and the bad times. Transaction banking is core to Deutsche Bank’s historic, current and most certainly, future client offering. It is part of where we want the Bank to be in the years ahead and so our goal is to continue to invest in our cash and trade finance business areas. That’s good news for our clients and hopefully equally positive for Deutsche Bank and its stakeholders.

But the current climate demands that transaction banks review their business models in an environment where margins and fees are declining and costs, thanks to technology, regulation and market infrastructure developments, are rising.

Back to basics
We therefore have to get the basics right and build firm foundations on which to improve efficiency, cost effectiveness and quality of service. These are all pre-requisites to be competitive in a world that should have more players, more client demands and increased regulatory scrutiny.

The regulatory ask comes from many directions, ranging from Basel III, KYC demands and anti-money laundering to the Liquidity Coverage Ratio and Net Stable Funding Ratio. And as well as making sure we comply and organise ourselves around the regulatory landscape, we also have to make sure that we work with our clients to enable them to navigate the complexities – this is why we place a lot of importance on thought leadership and market advocacy.

Similarly, we are also committed to ensuring our technology not only keeps pace but also sets new standards for innovation within our industry. Deutsche Bank has a culture of innovation, which is not always recognised by external parties, but we believe our clients should be aware of this quality within our organisation. We have dedicated innovation labs that are looking at front-to-back processes and building solutions for corporate treasury that use the wealth of data we have available from across the Deutsche Bank group.

Fintech bonds
We are also looking at developing close relationships with the financial technology sector (Fintech) and working on plug-and-play and API (Application Programme Interfaces) concepts that are likely to enhance our palette of solutions. Amid this wave of activity, we are also working on trade finance-related instruments that could potentially use technology based on distributed ledgers.

At the same time, everything we do is designed to make the life of the corporate treasurer easier. Their role has changed and so the new technology that we adopt could allow them to free up their time. Furthermore, we are placing great emphasis on working capital solutions, an area of great focus for treasurers these days.

Technology, regulation and geopolitics should continue to influence the business environment for the foreseeable future. It is a future that is challenging and uncertain but also one that is rich in opportunity for our industry – if we adapt, innovate and meet our clients’ needs. That will require a change of attitude, a shift in priorities, intelligent use of resources and increased commitment. The corporate world needs strong banks that can provide all of these elements and with transaction banking at the heart of Deutsche Bank’s corporate and investment bank, we aim to be just that for our clients.
From September 26 this year, Geneva plays host to Sibos, SWIFT’s annual event for the global financial services community, first held in 1978. Around 8,000 business leaders from banks, market infrastructures, corporates and technology vendors will be descending upon the Swiss city. Attendees will find more than 180 exhibitors, hundreds of speakers and conference sessions, and numerous networking events.

The theme for Sibos 2016 is ‘Transforming the landscape’, which will see the conference exploring the latest payments and securities industry trends, looking at what is new in the world of financial crime compliance, opportunities and challenges in financial technology, and how disruptive competition and cultural shifts are changing the financial world we all operate in. The 2016 conference is structured around the four core streams of banking, compliance, culture and securities.
The modern treasurer’s lot

As the role of treasurer becomes increasingly pivotal to the financial health of organisations, Neil Jensen speaks to Andrea Paulis, Group Treasurer for CNH Industrial, and Marco Bigatti, Group Treasurer at Luxottica Group, to find out what skills and strategies are key to success in the field.
Last year, Deutsche Bank worked with the Economist Intelligence Unit on a paper that looked at the challenges facing corporate treasurers. The study revealed a number of shifts taking place in the treasury landscape, from external factors to the changing perception of the role and its place in the corporate structure.

But in practice, how has the day-to-day life of the treasurer transformed over the past couple of years? Of course, the treasurer has to work within the corporate structure and culture of their organisation, so there is no ‘one size fits all’ approach, but there are certainly common features that can be found in every treasurer’s job description, regardless of underlying influences.

CNH Industrial is one of the world's largest capital goods companies, working across agriculture, commercial vehicles and construction equipment, among other areas. It was formed out of the integration of Fiat Industrial S.p.A. and CNH Global. Fiat Industrial was created through the de-merger of CNH, Iveco and FPT Industrial from Fiat Group; and CNH was formed from the merger of New Holland N.V. and Case Corporation – so there are a whole lot of different corporate cultures within that story.

Industry transition
Such a story of corporate construction can present many hurdles, but Andrea Paulis, Group Treasurer for CNH Industrial, says this has not distracted the ascent of the company’s treasury unit. “There have been many changes in our structure, but today we have a 120-person team that works across the regions for a group present in 180 markets,” he says.

Paulis believes his department has moved towards being a “strategic advisor” to the CNH Industrial business, a transition that has taken place since the financial crisis. “We are certainly more active and our role transcends the organisation,” he says. “We are consulted on a broad range of topics, including geopolitics, financing, country exposures, business ideas and compliance issues. We have multiple touch points within the company.”

It’s a similar tale at Italian eyewear company Luxottica Group, where Marco Bigatti, the company’s Group Treasurer, has seen treasury move from being perceived merely as “technical” to a trusted business partner. “We are now seen as being a function that is helping to achieve results,” he says. “We contribute to the view on a number of important issues and play a part in making those important business decisions.”

Luxottica Group has expanded on a global basis to become a leader in the design, manufacture and distribution of fashion and sports eyewear. Its network now covers 150 countries and 7,200 stores. However, with such a footprint, and an enhanced position within the organisation, come significant challenges.

Communication is key
Bigatti, for example, says that ensuring communication is maintained across all channels is an important element, particularly in an age when news breaks swiftly and the financial markets react with speed, and often mercilessly, to any incident. Both he and Paulis talk about the need to navigate the complexity that is prevalent not only within the macro-economy but also occasionally within their own companies. “We are living in a world where events happen and unfold very quickly, largely due to technology and mass media. This means we have to rapidly respond to incidents and market changes. You cannot afford to be unprepared,” says Paulis.

Marco Bigatti is Group Treasurer at Luxottica Group, the world’s largest eyewear firm. The Group’s global wholesale distribution network covers more than 150 countries and is complemented by an extensive retail network of over 7,200 stores, with LensCrafters and Pearle Vision in North America, OPSM and LensCrafters in Asia-Pacific, GMO in Latin America and Sunglass Hut worldwide.
Being prepared also means having the right financing and funding, something that is core to the treasury function. Right now, there is no lack of liquidity or financing options; in fact, some might suggest that—in this time of low and negative interest rates—money is cheap and readily available. “There are no great concerns about financing at the moment, but working capital is something we are focusing on more and more,” says Bigatti. Among treasurers, there's also an awareness that, along with working capital management, supply chain finance is also a critical tool today, especially as the ecosystem is so interconnected.

Paulis adds that the emphasis on working capital is part of the evolution of the financing side of the role. “We need to meet a broad range of business needs,” he says. “And that includes ensuring that we can better manage payables, receivables and investment. In order to do that, we have to access finance that improves all of these elements.”

With working capital management so key these days, making the right decisions can only be achieved through strong connectivity across the organisation. Paulis, however, believes that there are still hurdles for the treasury operation. “We are still seen as technicians by some people in the business and therefore they do not always make the connection between treasury and the role it plays in the financial health of the company.”

But the fact that the overall perception of the treasury role has changed so much in recent years also makes it a very good career choice for individuals looking to move into such a key position.

Internal recruitment
Both CNH Industrial and Luxottica Group have a reputation for resourcing their treasury team from within their organisation. This not only means that they make valuable use of the knowledge accumulated from within to build a strong understanding of the company’s requirements, but also that there is a high level of continuity. Explains Bigatti: “In many ways, our treasury mirrors our corporate culture. We actually have quite a young team, but they have mostly gained experience from working elsewhere within our organisation.”

180
CNH Industrial works across the regions for a group present in 180 markets

It’s not unlike the situation at CNH Industrial where a succession of people have moved internally into treasury as demands have increased over the past few years. This is partly a quality inherited from Fiat, which had an embedded ethos of personal career development.

Paulis sees a very specific set of skills being a prerequisite for a role in treasury. “It’s a combination of analytics and relationship building,” he says. “A strong understanding of financial markets and how they are influenced is important, along with a skill-set that includes accounting, legal and tax. It’s very broad.”
Bigatti places great importance on the relationship building. “Given our part in getting the right outcomes for the company and the visibility we have, nurturing relationships across the organisation is of paramount importance. Sometimes, we have to engage with senior management and discuss the allocation of capital. It’s vital that our people have the confidence and ability to enter into that type of dialogue,” he insists.

So how do our two treasurers see the future? There’s little doubt that treasury will remain front and centre of the organisation as financial markets become more global, more interwoven and increasingly complex. Paulis sees the task becoming broader and more strategic, but he also sees challenges coming from the Fintech sector. “The environment will keep changing and evolving and we will need to understand the landscape that emerges from this period of disruption.”

Bigatti, meanwhile, maintains that if there is anything alchemic about treasury, it is in simplifying the complicated, while following a path that combines product excellence and industry leadership. “Like our company, the treasury function will continue to evolve and become more entrepreneurial in its outlook. We have a tangible role to play in the results of our company,” he adds.

From speaking to Paulis and Bigatti, it is clear that corporate treasury has already gone through a significant sea change. How it continues to grow depends on many contributing factors, not least the macro-economic environment. It will be interesting to see how things shape up over the next few years.
CASH MANAGEMENT

Tackling the Negative Rate Environment

With negative rates affecting a number of currencies, corporates need to adapt cash management strategies to protect the value of their cash. Segregation of cash is one way to alleviate some of the current strain.
A great statistic that sums up the current situation is that, out of the US$37 trillion dollar developed sovereign debt market, approximately US$15 trillion of that pays a negative yield,” says Joe Mauro, Head of Market Management, Trade Finance and Cash Management Corporates for Deutsche Bank. “It is no wonder that corporates are most concerned about preservation of principal with their cash.”

Five central banks have moved benchmark rates into negative territory, while bond purchase programmes by the European Central Bank and the Japanese Central Bank have impacted rates further out the curve.

The negative rate environment is also compounded by the regulatory change that has come in recent years. In a pre-Basel III world, banks were happy to take on deposits to fund assets elsewhere as there was little or no cost to taking on a deposit. “With the Basel III liquidity coverage ratio (LCR) and leverage ratio, that has now changed,” says Mauro. “The idea of all deposits being treated equally is no longer the case. What the regulators are concerned with is how much of those deposits will stay in times of stress, such as during a 30-day stress event.”

Cash segregation
One way that corporates are facing up to the negative rate environment is by segregating into different buckets for different purposes. This allows the treasurer to take different levels of risk with their cash, depending on which bucket it is in.

There are three main parts to cash segregation. In the very short term, corporates need to have operational cash to meet the day-to-day requirements of the business. “Typically, banks took a more favourable view towards operational cash,” says Paul Cuddihy, Director, Working Capital Advisory at Deutsche Bank. “Corporates might avoid the negative interest rates for that operational cash providing they can agree with their banks that it is operational and it is below a certain threshold.”

Beyond the short term, there will be cash that companies hold in case of emergencies, to ensure that key payments can still be made no matter what. That balance may fluctuate through the year, perhaps because the business is seasonal, or where it is in terms of the development and return cycle.

“Typically we see clients taking a couple of approaches here,” says Cuddihy. “One approach is to do nothing, to see it out and accept the negative interest rates. Other companies have more sophisticated
The number of central banks that have moved benchmark rates into negative territory.
For more information on cash segregation, visit cib.db.com

investment policies, and will look to see if they can invest in other instruments. These could include repos or commercial paper, some way that they can improve their short-term return.”

Looking to the longer term, corporates can have a strategic cash bucket. With strategic cash, if the treasurer has identified cash will be used and they know it is going to be there for a number of months – through a dividend payment or some capex spend that is planned in the future – the potential exists for this to be invested in longer-dated deposits or other investments. The further a treasurer can go out on a term deposit, the more yield they have the potential to pick up.

The more forecast accuracy you have, the less of a buffer you need to maintain

An instrument that has become popular following Basel III LCR is a rolling term deposit, also known as an evergreen deposit. “With an evergreen deposit, the corporate has to provide the bank a 30-day notice, as an example, and then 30 days from that point the principal plus interest comes back,” explains Mauro. “This is good for the bank and it tends to pay quite well for corporates. In the negative interest rate environment, and also in the regulatory environment that we are in with Basel III, these instruments are particularly relevant.”

The more that corporates are able to segregate cash, the more they can create some flexibility to bring in asset managers and bring in what are called separately managed accounts, within certain risk/return profiles to manage large buckets of cash.

To be able to segregate cash successfully, it is vital to have an accurate cash flow forecasting programme in place. If the cash flow forecast is not providing good data, then extreme caution should be taken when looking to place any cash outside the short-term and medium-term cash buckets.

“Depending on how much variability you have in your forecast, you could end up with situations where you can’t segregate because you have to maintain too much of a buffer,” says Mauro. “The more forecast accuracy you have, the less of a buffer you need to maintain, so the more you can segregate your cash. Likewise, you need to maintain a larger buffer that is accessible for more variability in your forecast.”

Other tactics

Another area that corporates are looking at to try to mitigate the negative rate environment is dynamic discounting. This is a process where surplus cash is put to work by paying suppliers earlier. This helps the suppliers, either by providing them with working capital funding and/or as a means of reducing the cost of their inputs. For example, a corporate could negotiate with a supplier so that, instead of paying them in three months time they pay immediately, but rather than pay $100 they will pay 98.

One of the more strategic challenges faced in certain industries, such as in oil and gas, pharmaceuticals, is that while times may be challenging for large multinationals in these industries, it is tougher still for the smaller suppliers. The further down the supply chain a company is, the more challenging it is to raise or access funding. A large organisation being able to provide working capital funding can often be a less expensive funding option for these smaller companies. This difference in price can then feed through into the price that they charge the corporate customer.

“The key challenges for corporates that opt for this route is to make sure that they have policies in place at a country and a regional level to safely and securely manage those surplus cash balances and ensuring that they are with the right counterparties that fit with the organisation’s risk profile,” says Cuddihy. “You don’t want to leave cash with a local bank where you are not convinced about the creditworthiness of that bank. To manage this successfully is about using your core banks but more on a local basis. That way you are comfortable with their credit rating and are keeping the cash in a currency where you know you will avoid negative interest rates and potentially get a better return.”

Words: Ben Poole

Cash flow forecasting

All treasurers in multinationals face cash flow forecasting challenges. A key challenge is the input that departments outside treasury have on an organisation’s cash flow. Typically there will be a separate department outside of treasury in charge of procurement and paying the company’s vendors. There could be a separate department that sits with sales and credit that is in charge of the accounts receivables.

“Working capital flows can be unpredictable,” says Mauro. “When are sales coming in and when are vendors going to pay? This can be based on how their sales are going and what their working capital position is. There is a macroeconomic component to it, there is a sales revenue component to it, and the individual buyer or distributor component to it as well.”

It is vital to get that information delivered from the credit or collections department to treasury in the most accurate way possible. “Most importantly, cash forecasts need to be tracked against actuals,” says Mauro. “The feedback loop has to be established with the provider of the forecast, to be able to identify gaps and close them down. You are never going to have a forecast that is 100% accurate, but you want to be driving towards something that is more accurate.”
Evolution or revolution? The ECB on DLT

Many people believe that distributed ledger technologies (DLTs) will replace the role of the financial intermediaries in the post-trade world. The European Central Bank (ECB), however, adopts a more cautious approach.

Distributed ledger technology (DLT) – of which Blockchain is the most prominent – is a system of decentralised and shared data that cuts out financial intermediaries, like banks. The technology, says Dirk Bullmann, Adviser in the Directorate General Market Infrastructure and Payments, may have the potential to revolutionise securities and payments. However, “from today’s perspective we cannot say whether DLT is a universal remedy or a flash in the pan,” he adds.

Bullmann says: “DLT enables shared databases and trust is embedded through cryptographic proof. This means that on a blank sheet of paper you can sketch a revolution of the financial eco-system, which moves away from what we have today, namely trusted parties operating centralised ledgers, to a partially or fully decentralised ledger with trust built in. One can even design a DLT world, which puts into question the fundamentals of the economic system.” But such reflections, says Bullmann, are at this stage rather theoretical in nature.

Perhaps this is why the focus has shifted to more concrete questions of what problems DLT could actually solve. The ongoing work on applications of DLT for specific products, and the testing of all prototypes in the post-trade sphere, will determine the direction and whether it can be seen as an evolution or a revolution.

A DLT solution in 5—10 years?
To ensure that its services continuously evolve and keep pace with technology and user needs, the ECB has issued strategic reflections on the future development of the Eurosystem’s market infrastructure. Its strategy aims to improve the efficiency of European market infrastructure. There are three pillars, based on liquidity management of central bank money, securities and collateral, thus covering payment transfers, securities settlement and collateral management.

The first pillar is the technical and functional consolidation of Target2, the ECB’s euro real-time gross settlement system, and Target2-Securities (T2S), the ECB’s securities settlement system, which went live last year. Consolidation could, for example, allow users to benefit from a single point of access.

The second pillar looks at the possible support of pan-European instant payment services, that is, electronic retail payment solutions available 24/7/365.

In the third pillar, the ECB is targeting harmonisation in the area of collateral management and studying the business case for building a common Eurosystem collateral management system.

The key to the ECB’s strategy is technology that fulfils the requirements of safety and efficiency. A number of factors reduce the likelihood of DLT being that solution in the immediate future, says Bullmann. “Today, numerous DLT approaches and models are under consideration, accessed in various ways. There are also different validation methods governing how changes to the ledger are implemented and which data is shared.”

Work is ongoing to shape DLT according to the specific needs of the financial industry, including scalability and processing speed in the area of market infrastructures. However, there are also legal considerations, such as governance and ensuring finality of settlement. “What is the right governance model and who is responsible in a DLT
environment are questions that I don’t think anyone has the answer to yet,” says Bullmann. “Given these questions, DLT is not ready for prime time, reducing the likelihood that it can be used in the context of the ECB’s strategic review of its market infrastructure.

“We need to base our services on proven and tested technologies and we have to acknowledge that it is unlikely that we will have a true DLT environment in place in the next few years.”

**Three scenarios for DLT**

The ECB has identified three scenarios for the use of DLT in the post-trade space. These scenarios are described in a staff paper published in April 2016. In the first scenario, different groups of market players adopt different DLT solutions to improve their internal efficiency.

In the second scenario, referred to as ‘evolution’, core players adopt market-wide distributed ledgers. “T2S adopting DLT would be a concrete example of such a theoretical scenario,” says Bullmann. “Smart contracts could also be employed to automate asset servicing, which could lead to the disintermediation of some market players”.

In the third, more extreme scenario, which is called a ‘revolution’, all post-trade processes of the issuers and the investors are performed on DLT in a peer-to-peer environment with limited room for financial intermediaries and market infrastructures.

In the medium term, says Bullmann, we are likely to see a scenario somewhere between the status quo and evolution. “But it is hard to imagine that specific functions are rendered superfluous in the future,” he adds. “In the settlement layer, the notary function needs to be exercised to ensure there are no discrepancies between the amount of issued securities and the amount of traded securities. In another example, the clearing function continues to be required for trades related to derivatives. So the peer-to-peer world that DLT could bring is not very likely to materialise. But again, time will tell.”

What is clear is that the market infrastructure of the future will continue to operate within the paradigm of efficiency, safety and technological advancements. A shift in expectation towards instant payment services has to be addressed and cyber resilience has become more of a concern in the securities industry.

Irrespective of the technology used, the underlying market infrastructure, or plumbing, will remain, believes Bullmann. However, the service layer offered by banks, custodians and other market players may change.

“But this is more about how market players position themselves in this new environment,” says Bullmann, drawing an analogy to T2S — already a game changer in the post-trade world. With T2S harmonising settlement in Europe, some market infrastructure providers are positioning themselves as connectors to the centralised platform, while custodians are differentiating through asset servicing.

**Harmony with DLT?**

The ECB sees itself as a catalyst, co-operating with the financial sector and with financial authorities to improve overall market efficiency and contribute to the wider goal of financial market integration in Europe. “What we see today is that individual consortia and market players are working on DLT-based solutions, which involves the risk of fragmentation,” says Bullmann.

“If we see that a development like DLT could jeopardise financial market integration by increasing fragmentation, we have to address that.” Under the umbrella of T2S governance, the ECB has already established a task force composed of market participants to study the impact of DLT on T2S and the post-trade ecosystem. “It is vital to ensure interoperability of services, in particular through standardisation at the technical level, and through harmonisation efforts in the business and legal domains.”

Bullmann compares this to the work the ECB has done in a T2S context, where it has identified 24 harmonisation initiatives of a technical, business and legal nature. In co-operation with the market participants, it works on these initiatives to enable an optimal use of T2S. DLT could potentially lead to fragmentation and require a harmonisation effort, says Bullmann, which could involve some of the 24 initiatives already identified. “For example, with DLT the question is whether settlement should be T+2 or whether it should move to T+0 or T instant settlement. We can look at those aspects in the context of the governance structure and with the analytical framework we have in place for T2S harmonisation. We have started this work with Steven Lomas, Head of GTB Market Policy, Deutsche Bank, as a chair and we can drive this forward.”
Sandbox innovation

The promotion of innovation in Fintech start-ups has been a goal of the Financial Conduct Authority (FCA) since it launched three years ago. Director of Strategy and Competition Christopher Woolard explains the motivation behind the Sandbox initiative, which helps new businesses enter the market without the usual regulatory barriers.

Christopher Woolard is responsible for the FCA’s policy, strategy, competition, market intelligence, consumer issues, the Chief Economist’s department, communications and Project Innovate. He is chair of the FCA’s Policy Steering Committee, a member of the FCA Board and a non-executive board member of the Payment Systems Regulator.

Q Please tell us more about the FCA’s innovation initiative ‘Project Innovate’ to support Fintechs and other technology firms.

A Since the launch of the FCA in 2013 we have looked to foster competition and new entry. Innovation forms a key part of this. Project Innovate has twin aims: on the one hand, providing direct support to innovators; and on the other, and just as importantly, using the feedback we get to take a good look and to improve our own policies and processes where appropriate to ensure that we are not creating barriers to competition.

Q Could you tell us about the aims of the Sandbox initiative? Who can participate and what are the conditions for users?

A We were the first regulator to launch a programme like the Sandbox anywhere in the world. Whether they’re start-ups or established providers, the Sandbox allows innovative firms to test out new business models in a controlled environment where consumers are suitably protected, but without incurring all of the normal regulatory consequences of engaging in those activities. We aim to facilitate new products and services coming to market, which might otherwise have struggled to progress beyond the concept stage.

Our criteria focus on whether there is genuine innovation; whether it is of benefit to consumers, either directly or indirectly; whether the idea is meant for the UK financial services market; whether there is a need for testing in the Sandbox alongside the FCA; and whether it is ready to test – in other words, being in a sufficiently advanced stage of preparation to mount a live test.

We will run a second application period for the Sandbox later this year.

Q Is the FCA looking to include further jurisdictions other than the UK?

A The Sandbox is open to non-UK firms, providing that the test is aimed at the UK market. We are only considering trials that fall within our jurisdiction, rather than innovations that are not intended for use in the UK.

Q Could you tell us how the FCA is supporting Fintechs in the ‘RegTech’ initiative?

A Listening to the technology and financial services industries, academics and consumers has been key. We have a particular interest in working with those involved in developing technologies to improve regulatory reporting and data sharing – both between firms and between regulated firms and the regulator – and in making our Handbook more accessible.

There is strong interest in the FCA playing an active role to unlock the potential benefits of technology innovation in the Fintech community, using our convening powers to help bring market participants together on shared challenges.

One example was our TechSprint event in April. This two-day innovation event involved a cross-section of financial services providers and technology companies with an interest in how technology can help to address some of the intractable problems and challenges faced by consumers, particularly those who might be elderly, disabled or financially excluded, in accessing financial services.
The Sandbox is also open to non-UK firms, providing the test is aimed at the UK market.

Teams were given 48 hours to come up with a prototype solution: facial and voice recognition with speech playback, multilingual capability and simplified command buttons featured heavily.

Q Could you shed light on how the FCA is preparing Fintechs for forthcoming regulation?

A Through Project Innovate we are able to foster innovative firms and guide them through the regulatory landscape. We offer support to innovator businesses that are looking to introduce groundbreaking or significantly different financial products or services to the market, including when they need assistance with an application for authorisation or a variation of permission.

Our Innovation Hub team offers guidance pre-authorisation and gets the firm to think about how best to prepare. Firms that have received initial support from the Hub will have their applications handled by a specialised Project Innovate authorisation process. After authorisation we will provide dedicated supervisory support for one year.

In the first year we supported 177 firms – just eight months later that number has increased to nearly 300; 26 of these firms are now authorised.

We have also provided over 80 informal steers – that is, fast and frank feedback on the regulatory implications of a business model.

Q To what extent is the FCA collaborating/working closer together with other regulators around the globe? Can you learn from each other?

A If we want the benefits of competition and innovation, we have to do what we can as a regulator to ensure firms can grow in scale globally and the most innovative firms come to the UK. A simple way to do this is through closer international cooperation. This year we have signed international cooperation agreements with the Monetary Authority of Singapore (MAS), the Australian Securities and Investments Commission (ASIC) and the Korean Financial Services Commission (FSC). These agreements allow us to share information or refer innovative businesses seeking to enter the other’s markets to provide support to innovative businesses before, during and after authorisation to help reduce regulatory uncertainty and time to market, and support innovative businesses to grow.

Q How can the UK Fintech community maintain its momentum in uncertain times?

A Since the launch of Project Innovate we have been impressed by the innovative approach the UK Fintech community has taken. Moreover, we will continue to work with and support innovators in the coming months through the first round of Sandbox applications, and by our direct support offer for firms.

The current regulation remains applicable until any changes are made, which will be a matter for Government and Parliament.

Q How do you see the Fintech landscape evolving? What role do you think the FCA will take?

A The only thing that is certain is the continued pace of innovation and development of technologies. We do not view the Fintech landscape favouring any particular sector or technology type. However, there are a number of important issues reflecting current trends. For instance, what are the benefits and risks of blockchain, and how can we effectively use RegTech in our regulatory reporting tool kit?

We will also continue to support new innovations, not only from start-ups, but also from large firms too. At the moment, innovation is occurring across the value chain of business, which presents a challenge for large firms due to disintermediation. But, established financial services firms will not want to face the same fate as the music industry a decade ago. Large firms should see Project Innovate as an opportunity to develop new ideas, rather than just new market entrants.

For more on the Financial Conduct Authority, visit the-fca.org.uk
The importance of innovation cannot be overstated. Every sector – from retail, FMCG (fast-moving consumer goods) and travel, to education, transport or health – has undergone disruption in recent years. Staying ahead of the competition is no longer simply a matter of competing on price or reach; clients now expect the companies they buy goods and services from to understand their individual needs and to tailor the ways they provide their services.

For all types of banking, the issue is pressing, as tech savvy clients expect their bank to anticipate their needs. Any bank that fails to do that will soon find its clients migrating elsewhere.

A whole ecosystem, from Silicon Valley via the Silicon Roundabout in London, to the hubs popping up all over China and South Asia generally, has grown up to serve this insatiable appetite for innovation and progress. But increasingly, innovation is not just the preserve of funky start-ups: a growing number of larger corporates are now looking to foster innovation in-house.

### Powering innovation
Since 2014, Deutsche Bank has chosen to build labs in the midst of thriving innovation ecosystems. Three are now open – in Silicon Valley, London and Berlin – with teams in Frankfurt and Bengaluru that span the Bank’s operations. A further lab is set to open in New York later this year.

Jon Pearson explains that the accelerated pace of technology innovation that fuelled the rise of the Fintech phenomenon “now permeates everything that we do in banking; and with the advent of cryptocurrencies, and particularly developments like Blockchain, it is essential we keep pace with this ever-changing landscape.”

With that in mind, and with the Strategy 2020 of streamlining and simplifying the group’s operational structure fresh in mind, Chief Operating Officer Kim Hammonds spearheaded an effort to create what Pearson calls: “A dedicated environment where innovation can be allowed to flourish.”

“We’ve engaged with relevant ecosystems to foster relationships with academia, start-ups, vendors, accelerators and VC’s, to connect and build Deutsche Bank’s brand as a fertile ground for innovative technology,” Pearson explains.

### The tech is out there
“The aim,” says Pearson, “is to discover innovative technology in the local ecosystem and assess what value it may bring to the firm. We would then develop that technology in order to directly inject into Deutsche Bank, whether it be through tools, process or people.”

Pearson, who co-founded the first joint Deutsche Bank-HCL innovation lab in 2012, says the labs have also been set up to ensure Deutsche Bank’s pioneering intrapreneurs can engage with early to mid-stage companies, where innovative technology is currently under development and needs to be nurtured. “We get in early and make decisions on mentoring, or help pivot the technology, while preparing our business for potential disruption. This ensures that they have the relevant foresight to feed into their business strategy,” he explains.

The labs work on a simple blueprint, with three main streams of innovation. “The first element is demand-led innovation,” Pearson explains. “The second is supply-led innovation; and the third is thematic innovation. They all support our main goal in terms of technology transfer into the firm: finding new technology and bringing it into Deutsche Bank.”

Demand-led innovation principally involves a team of people within each of the labs who engage directly with
the business and the IT organisation to identify challenges that the current business and IT teams cannot solve. "That’s not because they’re incapable of solving them; it might be that it isn’t in their current book of work, or within their current remit, or they have budgetary constraints,” says Pearson. “We bring these challenges into the lab, and work with the business and IT teams to search for potential solutions,” Pearson continues. “The lab team can also define the overall client value chain, focusing on client needs and their desired experience. This can highlight additional challenges and opportunities for improved client experience. Once we have clarified the challenges, they are prioritised through divisional innovation advisory forums.”

Supply-led innovation is largely fostered through existing links with partners, clients, suppliers and the rest. Keeping an open mind and monitoring what partners are doing can play an important role in feeding the labs’ need for new ideas.

Discovering emerging tech
The third, and perhaps most intriguing strand of the Deutsche Bank labs’ work, focuses on thematic innovation. “This is where we investigate and experiment with emergent themes like machine learning, API economy, cyber security, cloud technology and distributed ledger technology,” says Pearson.

“Supply-led innovation is largely fostered through existing links with partners, clients, suppliers and the rest. Keeping an open mind and monitoring what partners are doing can play an important role in feeding the labs’ need for new ideas. We work within those themes to firstly educate the business, ensuring everybody understands the value and the disruption that could occur from the realisation of this technology; and then we work up business cases for proof-of-concepts.”

That will allow the innovation teams to demonstrate the value of new technology to both the business and clients, “with a view that technology is continually iterated into a banking product, or with us proving/disproving that the technology has validity. If proven, the technology is prepared for adoption and subsequent implementation.”

Given the pace and variety of new ideas and processes that are currently emerging in Fintech, what does Pearson think success will look like?

“We are creating and evolving new business models and new products that drive significant, tangible returns in both cost savings and incremental revenue,” he says. “Our focus is on growing as thought leaders within the firm, driving emerging technology, and contributing to the broader discussion across the business.” Ultimately, Pearson and the other Deutsche Bank lab teams are motivated by a desire to have an impact on the perception of technology in banking, so that those within the business look at digital projects differently. “That means breaking down silos, increasing transparency and collaboration – not just across desks or teams, but also across divisions,” Pearson concludes.
Buying time on compliance

As regulation implementation deadlines are pushed back, Britta Woernle, Market Advocacy in Global Transaction Banking at Deutsche Bank, and Polina Evstifeeva, Vice President, Market Advocacy at Deutsche Bank explain the status of the rulings.

The raft of regulation shaping financial market infrastructure is expanding, incrementally becoming more detailed and complex. Unsurprisingly, we have seen deferrals of implementation deadlines recently, as authorities come to comprehend the time needed to comply with the sprawling scope of new rules.

MiFID II

Implementation of the Markets in Financial Instruments Directive II (MiFID II), the long-awaited epilogue to MiFID I, along with its sibling the Markets in Financial Instruments Regulation (MiFIR), has been postponed to January 2018. Equally, the date by which MiFID must be transposed into national law by all European Union Member States has been pushed back to July 3 2017, allowing for flexibility in how the provisions of MiFID II will be implemented in each country.

Britta Woernle, Market Advocacy in Global Transaction Banking, Deutsche Bank explains that the delay was necessary due to the exceptional technical implementation challenges faced by regulators and market participants to transpose MiFID II/MiFIR into national law. “Deutsche Bank is continuously monitoring the status of the ESMA level 2 standards as well as any upcoming level 3 Q&A and guidelines and has adapted the timeline and deliveries of its own Implementation Programme accordingly,” she says, adding that further clarification is needed in some areas. Custodians’ reporting obligations are uncertain, says Woernle, there are conflicts between reporting obligations under different regulations, and further clarification is required on how securities financing transactions will be able to demonstrate best execution – all three of these areas are key for Deutsche Bank’s Global Transaction Banking business.

One particular challenge is that MiFID II and MiFIR will have a global reach. In principal, MiFID II/MiFIR applies to all European branches and subsidiaries of Deutsche Bank that are involved in investment services or activities and, to a certain extent, also to the non-EU branches and non-EU subsidiaries if investment services are provided to EU clients. “This is a big challenge for all investment firms who work globally,” says Woernle.

European investment firms are now remodelling their internal processes and operations to satisfy the new requirements, many of which demand significant IT infrastructure development to handle reporting and recording of data.

Securities Finance Transaction Regulation

As a further challenge for compliance, implementation dates for the Securities Finance Transaction Regulation (SFTR) are approaching, coinciding with those of MiFID II. SFTR came into force on January 12 2016, aiming to increase the transparency of the shadow banking sector and to identify the risks and magnitude of SFTs. It comprises three central pillars; the compliance deadline for pillar 2 (“Transparency of reuse”) was met on July 13 and requires the providing counterparty of financial instrument collateral to be informed in writing of the possible risks and consequences in the event of the receiving counterparty default. The third pillar, with a January 13 2017 deadline, enforces Undertakings for Collective Investments in Transferable Securities (UCITS)
management/ investment companies, and AIFMs (Alternative Investment Fund Managers) to disclose the use of SFTs and Total Return Swaps to investors in their half-yearly and annual reports and initial prospectus.

The first pillar – SFT reporting – is more complex and follows the path of the European Market Infrastructure Regulation (EMIR). It will be compulsory for counterparties to SFTs to comprehensively report details of the conclusion, modification, correction and termination of the transactions to a trade repository on trade date plus one. The reported transaction must include a unique transaction identifier (UTI). ESMA requires transaction level reporting but collateral can be based on position-level data in a separate report. Compliance with the pillar 1 requirements is due in Q1 of 2018 and ESMA is expected to provide the final regulatory technical standards in Q1 2017.

“There are still many areas of uncertainty around what the reporting will look like,” says Woernle. One of these is the UTI, on which industry debate continues. UTIs will be an essential to the two-sided reporting process, yet there is still no consensus on their precise format. “The industry has identified several issues; the general definition and provision of UTIs, the application of UTIs to multi-allocated transactions, the handling of daily change of collateral market value and collateral baskets,” says Woernle. Clarity is predicted within the next year.

Account segregation
Investor protection has been a key concern for authorities in recent years, particularly relating to the safekeeping of assets. This has been at the convergence of several new regulatory initiatives. The AIFM Directive (AIFMD) and the fifth revision of the UCITS Directive (UCITS V) shone a light on the role and responsibilities of depositories and custodians. European regulatory thinking is now focused on whether depositories and custodians should be obliged to hold assets of different types of clients in separate accounts, or if the usual practice of an omnibus account that holds a mix of assets remains adequate.

In the wake of UCITS V and AIFMD, the market’s interpretation has typically been that it was acceptable to maintain the use of omnibus accounts at certain levels. However, there continues to be uncertainty among authorities on whether this provides sufficient investor protection, to the extent that ESMA has opened a renewed consultation on the topic. Entitled the Call for Evidence on Asset Segregation and Custody Services, the process remains open for contributions until September 23 2016. This follows a prior consultation in December 2015 that resulted in a controversial outcome; out of five mooted options, two were considered by ESMA as feasible and neither supported omnibus account structures.

This prompted a negative response from market participants for several reasons. “Market participants are widely reliant on omnibus accounts, so any change from this would increase the costs of safekeeping that potentially might end up being reallocated back into the funds,” explains Polina Evstifeeva, Vice President, Market Advocacy, Deutsche Bank. She says the implementation of a full account segregation model would also increase operational risk as, for example, instead of settling corporate actions in one account, they would have to be settled across numerous accounts.

The open consultation calls for evidence from banks and other participants to advise on a range of questions relating to asset segregation. The process aims to identify the costs, overall impact if segregation goes ahead, and how different account structures would play out in the case of insolvency.

“Our view is that we want more flexibility in terms of choice – we don’t think the account structures should be mandated. There are a number of reasons why our client might wish to choose a segregated account model, but this should be left to the discretion of the market participants and the clients themselves,” says Evstifeeva.
Deutsche Bank’s Chief Information Security Office (CISO) team is looking to drive home the message that, regardless of industry sector, type of business or size of organisation, everyone needs to be vigilant when it comes to cyber security.

Larger businesses may spend more on their systems or have more sophisticated cyber protections in place, but they can still be attacked and their operations compromised via their greatest weaknesses – poorly prepared or unaware employees.

Deutsche Bank Chief Information Security Officer for EMEA/Germany, Hinrich Voelcker, says that attacks tend to happen in waves. Once a particular line of attack achieves success, attackers will use it again and again.

“This is a combination of a lightweight technical attack using email spoofing, a lot of social engineering to find out who the responsible person in the organisation is and continuing the social engineering with the emails,” says Voeckler.

“When they click the link they get infected,” Voelcker explains. “Their security details are uploaded from their computer and if they are people who are, for example, authorised to initiate payment transactions, this is where the compromise starts.”

“What we see among corporates is that the attacker captures the payment transaction and this is then forwarded to a second person – under the four eyes principle – to approve and release it. So between capture and release, someone goes into the transaction and changes it hoping that the person checking it will not check it carefully enough and will release the payment.”

Cyber crime – be vigilant!

When it comes to cyber safety, there is no such thing as being overly cautious, no matter how alert an organisation is to technical security. Flow speaks to Deutsche Bank Chief Information Security Officer Hinrich Voelcker about the importance of being cyber crime aware.

Types of cyber attack that are commonly seen at present.

**Business executive scam**

In this case, the email account of a senior executive within the firm is exploited. A person responsible for initiating payments within the treasury department receives an email from the senior executive instructing them to make a payment of a significant amount of money, perhaps to close a deal of some sort; perhaps an acquisition or major purchase.

“This is a combination of a lightweight technical attack using email spoofing, a lot of social engineering to find out who the responsible person in the organisation is and continuing the social engineering with the emails,” says Voeckler.

“Ransomware

A victim’s device, such as a computer or mobile phone, is infected by a virus and effectively locked. This is done through encrypting certain parts of the device and then a window appears on the device saying that, for a payment of a certain amount in bitcoins, the device can be unlocked.

The victim may calculate what it would cost to take the problem to a forensic specialist.
but will find that it appears cheaper to take up the offer made by the attacker.

"Small and medium corporates and private individuals immediately make the business case," says Voelcker. "They pay the ransom but this scam has been successful and it can be repeated again, perhaps several times. So, over time, the business case becomes negative and costly for the victim."

Deutsche Bank may be able to recall payments through its banking network

Help is at hand

Banks are accustomed to receiving fully authorised transactions from their clients. Some are inevitably fraudulent and Voelcker says that when it comes to reconciling accounts, the fraud comes to light and Deutsche Bank makes every effort to help. It may be able to recall payments, it can reach out through its banking network and there is a high level of co-operation between banks because they all want to keep the market secure and it is in their interest to share information that closes down scams.

The Bank also makes every effort to support its clients in more pastoral ways. This extends to carrying out training and awareness sessions, presenting at conferences and issuing written materials on the latest scams and fraudulent activities that it becomes aware of in order to update customers. However, customers are ultimately responsible for the cyber security of their organisations and Voelcker’s overall message is clear.

"Be vigilant," he says. "You need to drive awareness throughout your organisation in addition to your technical security programmes. All members of staff are potentially the organisation’s weakest link. For example, someone working at home but not properly linked into their employer’s security system can also be a weakness. The organisation needs to make sure that they fall within their employer’s security umbrella.

"It takes much more effort to make a technical hack. But phishing that delivers malware is much less costly and may work perfectly well. If attackers can find a vulnerability, it’s not too hard to achieve their goals, which is why I say we all need to be vigilant."

Definitions of various cyber attacks

Types

Phishing: Bogus emails that trick users into supplying confidential information such as user-IDs and passwords.

Smishing: Phishing by SMS messaging. A text message is sent to an individual’s mobile phone requesting personal information under false pretences.

Vishing: So-called ‘war dialers’ call thousands of numbers at a specific time. When a call is answered, an automated recording claims that a credit card or bank account has been compromised and request the targeted individual to supply personal information.

Business-executive scam: Targets high-profile individuals (CFOs, CIOs) within an enterprise to obtain confidential information.

Other

Trojan attacks: Use of malicious software that appears to perform a specific function for the user but instead facilitates unauthorised access to their computer system.

Man-in-the-browser attacks: These intercept data by using a secure communication between a user and an online application. The Trojan embeds in the browser application and can intercept and manipulate any information that is submitted by the user. Trojans are also being used to attack instant messaging applications.

Viruses: These are spread via ad-related spam email.

Key Logger Robot: Programmes that record keyboard keystrokes to collect user access IDs and account information.

Social engineering: These are rogue phone calls, emails or other type of manipulation of people forcing them into performing actions or divulging confidential information.

Words: Richard Willsher
It’s a time of great change for China’s economy and the internationalisation of its currency, the renminbi (RMB), as it contends with domestic economic pressures, a slowdown in global trade and increasing two-way swings in the value of the RMB.

The approval by the National People’s Congress of the 13th Five Year Plan for 2016-2020 brought a new phase in the development of China’s economy – a more ‘normal’ range of growth in GDP from between 6% and 6.5% over the next few years will lead to a ‘moderately’ prosperous society. This will occur as the government seeks to shift the economy away from its reliance on real estate investment and low-cost exports to one driven by domestic consumption and investment in new industries, such as clean energy, biotechnology and ‘smart’ manufacturing through home-grown advancements and the acquisition of foreign know-how.

The efforts behind this strategic policy and the continuation of RMB internationalisation, the increasing use of the currency in cross-border transactions, will be symbolically recognised by the international community on October 1 2016 when the RMB is to be added to the basket of currencies that make up the International Monetary Fund’s Special Drawing Right, known as SDR, which currently comprises the US dollar, the euro, Japanese yen and pound sterling.
The success of past reforms and its impact on the global economy have made China and its currency an indispensable component of multinational corporations’ strategic plans. However, the past 10 months have seen an increase in the level of complexity and concern by investors as they consider their exposure to China and the RMB.

**Mixed messages**
Evan Goldstein, Managing Director and Global Head of Renminbi Solutions at Deutsche Bank, believes mixed messages from the government and wider global issues have proved problematic in the short term for further internationalisation of the RMB and raised the issue of currency risk to the front of most investors’ minds.

“Until early 2015, the renminbi was seen as an appreciating currency with little volatility in terms of movement. Many people, whether individuals, institutional investors or multinational corporates, were counting on that continuing,” he says.

But by the summer of 2015, leverage in China had risen to record levels. The government’s response – a set of market-cooling initiatives including a newly designed circuit breaker system intended to stabilise equity markets – was thought to have exacerbated investors’ concerns.

A circuit breaker system was designed to halt market trading for 15 minutes if the index fell by 5%, or to suspend trading for the rest of the day if losses topped 7%. However, this policy had to be abandoned in January 2016 after trading was suspended twice in a week, with the second instance occurring just 30 minutes after the opening bell.

“The government and regulators didn’t have a firm grasp on the tiller when it came to communicating their intent to the market and understanding the potential for a ripple-effect across international markets,” says Goldstein.

Less than two months later, the government announced a change to the methodology used to establish the daily fixing of the renminbi against the US dollar and effectively devalued the currency by nearly 3%. The move surprised international markets and sparked the beginning of a rapid selling of renminbi. From June 2015 to March of this year, China’s FX reserves declined by about USD480bn. As well, capital outflows over the same period totalled more than USD452bn – representing a desire by corporate to retire foreign currency debt, invest in overseas assets and protect cash from further devaluation onshore in China.

**Pressure diverted**
This pressure on foreign exchange reserves has now abated. This is partially due to more transparent and better understood FX policy, a cocktail of macro prudential measures and USD sales by the authorities, and a more gradual and controlled depreciation move than in the past.

Goldstein says a lot of institutional investors are looking to China for positive yields and credit diversification: “If you’re an institutional investor and you’re not perceived as a short-term player, then the regulators have made it much easier to invest into China in both the equities market and, more substantially, the interbank bond market.”

For China’s much-heralded dim sum and panda bonds, the outlook remains mixed. The recent increase in onshore liquidity by the PBoC has vastly reduced the appeal of borrowing offshore using dim sum bonds. Meanwhile, the panda bond market continues to make progress. The government has committed to opening up the market for RMB-denominated debt to multinational corporations with plans to recognise international accounting standards and foreign audits.

However, MSCI inclusion – which would have seen Chinese mainland equities added to the firm’s global indices – was rejected earlier this year. This was against the expectations of many analysts, but Goldstein remains bullish and believes approval is still ‘on the horizon’.

**Structural change**
Looking at the wider Chinese economy, the country is expected to continue its move away from cheap labour industries towards services and other industries. Investors in these affected areas must be prepared for this structural change, while those operating in industries such as pharmaceuticals, clean energy and technology are expected to flourish.

“Our clients are having to reassess their business models and the type of investments they make in China,” says Goldstein. “They have to evaluate where they stand with their financing plans. For example, if you’re a large manufacturer who is dependent on cheap labour, or you’re in the steel industry or car business, then you’re going to see some major pressures in terms of growth in China.

“If you’re in pharma, chemicals or green energy then you really will benefit significantly and firms are revising growth plans upwards because they’re seeing that change and that commitment of China to become much more of an R&D centre and a globally competitive marketplace.”

For foreign investors some longstanding risks – such as technology theft and the need for joint ventures – still remain an issue. Goldstein believes there is also lack of clarity from Chinese policymakers on the country’s future plans.

“The last eight to 10 months have been marked by a high degree of uncertainty and there is lots to consider,” he says.

“It feels like everything has been leading up to this point; the slowdown in the global economy, China opening up, the RMB seeing two-way volatility instead of just appreciating plus recent macro-prudential policy measures spooking markets.

“This has caused a lot of awareness and conservatism within the policymaking apparatus and among the regulators. Nobody wants to slip up with memories of last summer still fresh so things are moving very slowly,” says Goldstein.

“While the complexity is still there, China is committed to market reforms. The macro-economic challenges they face simply mean that reforms will progress in a non-linear manner. Rather, China’s economic integration with international markets will occur where they can, when they can.

“It’s important for our clients to hear from us frequently – not just to report on the latest regulatory announcement in China, but to help them evaluate the importance of that announcement to their business model and manage the ensuing risks accordingly.”

Words: Adam Williams
When it comes to protecting banks and their clients from criminal activity, KYC is critical. Neil Jensen looks at the growing need for robust and standardised processes.
Know Your Customer (KYC) processes have become even more critical to globally operating banks and their clients. With cyber crime increasing and constant concerns about money laundering and criminal activity, banks have to be absolutely sure about who they are dealing with. Moreover, they also have to be aware of their customers’ clients. In such an interconnected world, the domino effect of criminal behaviour can be devastating on an operational, financial and reputational basis.

Kim Hammonds, Group Chief Operating Officer at Deutsche Bank, underlines the importance of embedding KYC as a core discipline. “KYC processes should be comprehensive, manageable and resource-efficient,” she says. “In creating robust and efficient KYC procedures, banks also need to make it easy for clients to interact with them, for example, when opening accounts.”

Deutsche Bank is a design partner in both the kyc.com and SWIFT KYC Registry, and is already conducting awareness sessions with clients on the concept of KYC utilities. Furthermore, in July 2016, the kyc.com service was launched in Germany.

Consistency is key
Listen to customers and their frustrations around providing the right documents to their banking provider and it’s easy to see why there is so much angst in the system. There is too much duplication of effort; it can be labour intensive and costly, and there is a lack of consistency across the industry in terms of the type of information banks require.

And the consistency issue is important, given that utilities are designed in such a way that documents can be used by all counterparties – in other words, everyone is part of the same eco-system. The performance of all parties can impact on a broad range of banks and customers, so it is logical that everybody should be interested in making the system robust and secure. This realisation is why banks and other organisations across the industry have come together to develop a series of utilities that can be widely used by customers to fulfil their obligations.

It’s not just for the benefit of clients, either. Front-office staff in the banking industry are spending vast amounts of time dealing with KYC issues. While the function is, of course, essential, it is consuming so many hours now that it is compromising the business day.

Deutsche Bank is totally in favour of the adoption of KYC utilities and has been promoting the concept to clients and taking an active role in their development. The Bank is a firm advocate of industry collaboration and has also invested significantly in improving defences against financial crime and risk management.

However, where local regulatory requirements are not accommodated in these utilities, customers may be requested to provide information/documentation directly to the bank. Local policy uplifts have taken place in various jurisdictions to cater for local regulatory requirements around utilities.

Michael Spiegel, Head of Deutsche Bank’s Cash Management Corporates/Trade Finance, stresses the benefits that KYC utilities will have for clients: “This is going to improve the way they interact with banks. It will avoid onerous tasks, save money and should create a new set of industry benchmarks. And given we are in an age where making the user experience more enriched can be a differentiator, KYC utilities really play to our own goals of increasing safety and soundness.”
The fall in the value of sterling against other major currencies in the wake of the Brexit vote on June 23 has highlighted once again the innate volatility of foreign exchange (FX) markets. Just before the referendum, the pound was able to buy USD 1.49, but by early September it had slumped to around USD 1.32. There has been a similar story with the euro. Prior to the vote a pound was worth EUR 1.31 but the market rate is now closer to EUR 1.18.

Those falls might make life easier for UK exporters as their goods are now cheaper for international buyers, but it is worse for British importers who find that their purchasing costs have risen sharply. Above all, it highlights the need for transparency and, where possible, stability for businesses dealing in multiple currencies.

For many companies, FX transactions are far from their core operations, but they can still...
have a large impact on the fundamentals of the business. A survey earlier this year of 133 corporates around the world by consultancy firm Deloitte found that the biggest challenge companies face in managing their FX risk is the lack of visibility in their exposures, something that was cited by 56% of respondents. Other major challenges include volatility in the currencies of emerging market countries or ones that have trading restrictions placed on them (49%), as well as the shortcomings of the manual processes that companies currently use to identify their exposure (48%). As the report notes, “without accurate measurement, risks cannot be managed effectively”.

Simplifying the process

The difficulties that businesses are having in these areas have led banks to develop tools that can simplify and automate the decisions that need to be made, from understanding the level of exposure that a company has to identifying the most cost-effective strategies, and in managing them.

“When we talked to clients, we found a lack of visibility and transparency at many treasuries about their FX exposures,” says Robert Wade, Global Head of Electronic FX Sales at Deutsche Bank. “We can help clients identify and understand their exposures in a very transparent way. Then we can create a framework for them that can help them to apply their hedging policies in an automated fashion,” he adds.

It has been a gradual evolution to get to this point, with Deutsche Bank’s tools gradually increasing in sophistication over the years. Initially the main offering was a workflow solution that helped clients to manage payments and other receivables for their basic, cross-border cash management needs. Over time other elements were added to the Autobahn FX platform for clients interested in hedging their foreign currency needs and executing larger transactions electronically.

As the services became more sophisticated, there was a need to ensure that the processes were transparent and straightforward for clients to understand.

“Very often our corporate clients were getting intimidated by the traditional, one-click trading platform, so we slowed the process down and included additional controls,” explains Wade. “Rather than having the feeling of a traditional dealing platform, where you would have multiple bid/offer panels with streaming pricing showing you 20 to 25 different currencies, we created a simple worksheet interface to mirror a traditional corporate treasury workflow,” he adds.

Such services covered most of the stages of the FX process, from pre-trade when a transaction is first requested, to the trade itself when the currencies are bought and sold, and the post-trade stage which includes transaction reporting, confirmation and settlement. Using the tools on offer, clients were able to upload transactions and execute them on the platform in bulk, including in regulated onshore jurisdictions. All the details of the transactions could then be passed on to their treasury platforms to feed into their systems of record.

Providing clarity

While these changes were well received, Deutsche Bank discovered that clients were often still unsure about the extent of the foreign currency exposures that they had. They might run a weekly or monthly process on some spreadsheets to capture that information, but it wasn’t available in real time.

We can help clients understand their exposures in a very transparent way

That lack of clarity can drive inefficiency, cost and risk, particularly if a company is operating across multiple subsidiaries, jurisdictions and currencies.

To address these and other issues, in 2014 Deutsche Bank formed a partnership with US-based software firm FiREapps, following a two-year pilot programme. Its software is able to bring together information from different enterprise resource planning (ERP) systems that a company might be using, such as SAP or Oracle. That means that clients can now have certainty and transparency around their FX exposures.

“In our conversations with our corporate clients, a common challenge and frustration voiced by CFOs and treasurers is the difficulty of gaining a complete and timely understanding of their FX exposure,” said Fabio Madar, Deutsche Bank’s Global Head of Corporate FX Sales, at the time the FiREapps deal was announced. “FiREapps addresses this challenge head on by automating the aggregation of exposure data and providing robust analytics to help CFOs and treasurers make rapid, informed and cost-effective currency risk management decisions.”

Better hedging

Having that information to hand means that companies can take a more sensible approach to hedging, much of which can be automated in conjunction with other Deutsche Bank tools.

“We now have the ability to link the identification of FX exposures with the automation of analysis and the application of hedging policies and then automate the execution of those transactions,” says Wade. “Clients can tell us how they want to apply their hedging policy, for example so that certain currencies are hedged at a specific ratio. We marry that with analysis from our FX risk solutions team and then we can automate that entire process for them. We’ve started to do that for some clients for simple cash sweeping, for instance.”

It is still early days for much of this. The tools on offer will continue to develop in terms of sophistication and, with each new generation of services, it will take time for the tools to become widely adopted, but there are certainly benefits for those that do start to use them. Automated FX dealings can help to protect clients from market volatility while also offering greater certainty about what their exposures are.

An August 2015 position paper by KPMG set out a wide variety of benefits for treasury departments if they operated in a more efficient way, from cash pooling to liquidity planning and working capital management. The analysis identified the equivalent of a 1% improvement on the return on sales for the average corporation through the broader application of technology to finance and treasury management. The accurate determination and management of currency risk was a primary lever.

“Corporate clients are going to be able to save a significant amount of money and reduce their risk by applying this technology in a smart way,” says Wade.
On April 22, 2013, a lone bank robber hurtled into a Stockholm branch of Swedish bank Skandinaviska Enskilda Banken, pointed a gun at the staff and yelled “this is a robbery – put the cash in the bag.” After an awkward pause, the manager pointed to a poster on the wall stating that this was, in fact, an entirely cashless branch. The would-be heister lowered his gun, and on the way out, asked – “is there anywhere else I can go?”

Former Abba member Bjorn Ulvaeus loves this story – bizarrely, he’s leading a campaign to make Sweden the world’s first cashless society. And he seems to be winning. According to Stockholm’s KTH Royal Institute of Technology there are just 80 billion Swedish crowns (about €8 bn) in the country – down from 106 billion six years ago, with only half of those in regular circulation. Denmark and Norway are doing their best to catch up and Germany is considering a limit on the size of permitted cash transactions. How long until we have the first cashless day?

According to Sebastian Siemiatkowski, co-founder of Swedish mobile payments company Klarna, it’s possible that day has already passed. “My own first cashless day must have been years ago – I always hated carrying heavy coins around,” he explains. “My first non-store day was just a couple of months ago, when I bought everything online or with my phone. It’s reached the point that, in Stockholm, if somebody starts pulling out notes in store, people wonder if they’re a criminal.” Siemiatkowski foresees a near future – maybe five years away – where cloud services, like those at Amazon, carry the product information of everything from the moment it’s made, or even designed. We’ll discover products in the same way – Pinterest, a magazine, even the radio – then hit ‘purchase’ and it’s on its way. What’s not to like?

Indeed, if you don’t like this, Ulvaeus argues, you’re aligning with criminals and terrorists – who else would require untraceable payments? Well, me for a start. I would have to put my ruthlessly efficient Bulgarian house cleaner’s weekly £40 payment through a traceable e-payment system, which would mean I – and the rest of the middle classes – having to take full responsibility for the illicit VAT-free deals we do with builders and domestics. Another layer of surveillance. And we couldn’t withdraw our cash if central banks negative interest rates were applied to bank accounts.

But for banks, it must be a win-win – right? Maybe... But the cashless evangelists, the bitcoin evangelists and the new Fintech disruptors (like Klarna) are all keen to remove payments from the banking rails. The one service no-one is looking to launch is a rival to the ATM. It’s as if Napster only offered individual tracks, leaving albums in the exclusive hands of the music industry. Occasionally annoying as it may be, cash is still the exclusive product of banks.

Riding the wave of uncertainty

If there were one word to sum up 2016 to date, ‘Uncertainty’ would surely be a contender. Each day we’re confronted with the word – and nowhere is it more prevalent than in the financial sector.

Britain’s unexpected vote to leave the European Union continues to reverberate around the continent, and the globe, adding to the sense of macroeconomic unease, while the world’s second largest economy – China – has hit economic speed bumps.

Amid this turmoil, Deutsche Bank and its clients are striving to create the best possible environment in which to ride the wave of uncertainty and move forward, as you will read in this issue of Flow.

When it comes to Global Transaction Banking, cyber security is key and all organisations – be they big or small – need to ensure they are protected against the likes of phishing and viruses, particularly given the recent number of attacks on companies and their clients using this medium. As a result, Deutsche Bank is heavily investing in this area.

Although there are undoubtedly risks in the age of technology, there are many benefits to be had to assist the business of banking. Innovation is at the heart of Deutsche Bank’s ambitions and is the motivation behind our purpose-built labs in Silicon Valley, London and Berlin. Here, fresh ideas within the Fintech space are emerging as part of the 2020 strategy to streamline and simplify the group’s operational structure. There have already been many successes as a result, and there are many more to come.

The Global Transaction Banking team, Deutsche Bank

Through our website and thought leadership magazine, Flow, we deliver timely insights about the world of transaction banking and our role within it. Whether it is an important piece of research, graphics that provide greater clarity on key issues or transaction case studies, our stories – written by both internal and external experts – are tailored for corporate and institutional clients worldwide.

We hope you enjoyed this issue of Flow and we welcome your feedback.

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Lufthansa’s Torsten Kohrs and Carlos Scheeren discuss the success of the Payment Factory cash management system