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BNP Paribas Cash Management University report: the digital world (by GTNews)

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In keeping with its theme of cash management innovation in a digital world, this year?s BNP Paribas Cash Management University (CMU) event marked a first with the opening introduction made by a robot. Nao, who has been 10 years in development and is already used in Japan as a companion for the elderly, greeted the 260 delegates from 20 countries who gathered for this year?s ninth CMU.

While technical advance was a dominant issue this year, Europe?s financial professionals have much else on their mind. In one of the morning?s first audience polls, delegates were asked what issue kept them awake at night. The current political situation, both on the continent and in other regions, was cited by 53% of poll respondents ? well ahead of other issues such as a potential new sovereign debt crisis (17%); the European Central Bank?s (ECB) struggles to lift Europe out of deflation (14%) and slowing economic growth in China (10%).

In his welcome address, Alain Papiasse, Group Deputy Chief Operating Officer at BNP Paribas, noted that the global economic outlook had clouded since the previous CMU a year ago with several downgrades made by the International Monetary Fund (IMF) over the subsequent 12 months. Only the US, still the world?s largest economy, was faring better and there are fears that even there the growth cycle might be faltering. Although Europe?s modest gross domestic product (GDP) growth had picked up a little, it wasn?t sufficient to dispel fears that the continent might be following Japan, which has struggled with anaemic growth and near-zero inflation for more than 25 years.

Negative interest rates threaten to become more than a temporary phenomenon, creating a headache both for treasurers, their chief financial officers (CFOs) and the company?s chief executive officer (CEO). This has created the dilemma for companies carrying too much cash of whether to buy back shares or pay bigger dividends.

The challenging market conditions has impacted in BNP Paribas? Q1 results, but a 10% rise in group revenue to €1.8bn was comparatively good over a period when competitors have been retrenching and cutting back activities in areas deemed to offer inadequate returns.

Mr Papiasse noted that digitisation would change the world dramatically over the next five years ? and the ways in which BNP Paribas works with its clients. It is also likely to have a bearing on corporate treasurers? current areas of concern. Two of these ? reporting and regulatory compliance and how to invest prudently in a low interest environment ? are rapidly being joined by a third, cyber security, which has moved up the agenda. The bank is investing heavily in tools both to protect its own systems and data, and to support clients in ensuring that payments and payment requests are genuine. The challenge is in fine-tuning these capabilities to balance control with operational efficiency, to avoid blocking genuine payments and payment requests.

Filling the gap

In his address on the bank?s cash management ambitions, Pierre Fersztand, BNP Paribas? Global Head of Cash Management, said that the decision of Royal Bank of Scotland (RBS) in early 2015 to cease its transaction banking business outside the UK and Ireland ? and subsequent decision to appoint BNP Paribas as its referral bank to customers ? had provided the opportunity to demonstrate BNP Paribas? own long-term commitment to cash management as a core activity.

Furthermore, RBS customers had benefitted from a highly efficient onboarding process to BNP Paribas.

In other areas, the bank is assisting corporate clients in the current unprecedented scenario in which low to zero interest rates had been reduce further into negative territory in some currencies, notably Euro. The past year was also the first post-SEPA (single euro payments area) period following the final implementation deadline in August 2014. The period of relative calm that followed has allowed many corporates to tackle projects such as establishing payment factories. However, those in financial services still had to tackle the demands of banks? know your client (KYC) documentation requests and other new rules such as the European Market Infrastructure Regulation (EMIR). All of these factors heightened the need for automation, new partnerships and clever systems.

Economic clouds

An audience poll during a presentation on the global economic outlook shows many corporate treasurers see no early end to the low interest rate era. Asked where the European Central Bank (ECB) refinancing rate will be at the end of 2019, 21% chose below zero, 38% said 0% and 32% guessed 0.25% with only 10% believing it could be 0.50% or higher.

Nor do many see US rates heading much higher. Asked what was likely to be the peak Fed funds level, 21% foresaw no change from the current level, 53% thought they wouldn?t edge above 0.50%-1%, 22% selected 1%-2% and only 4% thought they?d move above 2%.

For William de Vijlder, BNP Paribas? Group Chief Economist, low rates are here to stay. A year ago it was possible to believe that the ECB embarking on a quantitative easing (QE) programme might kick start economic growth. Today, although growth has indeed pick up, inflation is still too low. Moreover, in the US small business sentiment is now weakening, while bond yields in the eurozone are increasingly negative.

Philippe Henrotte, Finance Professor at HEC Paris was no less gloomy. Back in 2009 there was a major problem of too much debt globally, but the response has been to load up on it even more over the past seven years. He cited increased borrowing by non-financial corporations in the emerging markets, which had ballooned to US$23.7 trillion by the first quarter of 2015.

For Mr Henrotte, it is also debatable as to whether negative interest rates instil confidence among businesses and consumers, or simply emphasise how bad the situation has become so that the aim of encouraging new investment is defeated.

Session moderator Sebastian di Paolo, Partner at PwC, asked whether the clouds disguised any possible silver lining. De Vijlder feared that in Europe at least, the remaining options are limited. ?The eurozone is characterised by limited fiscal space and hasn?t the willingness or ability to take risks in terms of fiscal or monetary policy,? he suggested. The only hope was that when the next recession hits the US might opt for reflation ? even if it resulted in an inflationary overshoot- thereby playing a locomotive role for the world economy. However, Henrotte thought that the Federal Open Market Committee?s (FOMC) ability to dictate US monetary policy had largely disappeared as a result of the 2008 financial crisis.

Pictured above: Nao the robot, who opened the 2016 CMU

The Estée Lauder experience

A morning round table session, entitled *?Turning Vision into Reality: Transforming European Cash Management?* heard from Andrea Boettger, European treasurer for Florida-based electronic manufacturing services company Jabil. The company was among those affected by RBS?s European retrenchment last year and promptly started its request for proposal (RFP) process. Having appointed BNP Paribas as its European partner bank, Jabil now has full visibility of cash, and is steadily reducing its bank accounts. Boettger admitted than ?going full speed? with the changeover had proved challenging and a test of resources, but the experience had been a valuable one with significant positive outcomes.

Bart Taeymans, Executive Director, International Treasury Centre for The Estée Lauder Companies, described how the cosmetics giant, which has US$10.78bn in annual sales and a presence in over 150 countries had partnered with Zanders on its treasury roadmap. This comprised a bank rationalisation project and standardising treasury processes.

The task was to see what the group could achieve over a timeframe of three to five years and to rationalize its inefficient banking relationships by cutting back on the number of banks and bank accounts. The group, which formerly had 32 banking relationships across Europe, the Middle East and Africa (EMEA) and 197 accounts aimed to standardise as much as possible. It concentrated activities with two pan-European cash management banks (BNP Paribas and one other) and has achieved numerous benefits, including cost optimization; process efficiency through technology; liquidity optimisation; a central approach to the legal framework; plus security and audit through a global e-banking tool and centralized administration.

Asked what was top of their own agenda for the next 12-18 months an audience poll cited:

- *Compliance and regulation* 29%
- *Centralisation* 21%
- *Improving treasury technology* 14%
- *Bank rationalisation* 13%
- *Cyber security* 9%.

A separate poll on their near-term cash management priorities saw greater visibility and control by far the favourite at 44%, with streamlining bank connectivity and improving working capital management both a distant second at 14% each.

It also appears that bank relationships are still being consolidated. Asked whether their number of cash management banks had changed in the past two years, 54% reported a decrease, against 28% for no change and 18% for an increase.

Overall, the first morning of the CMU emphasised a number of key messages. Firstly, in an environment of uncertainty and rapid change, corporate treasurers value stability, reliability, and visibility and control over their cash and operations. Secondly, the speed of change, whether technologically, economically, or in terms of customer expectations, is creating new demands on banks and vendors, including the new generation of ?fintechs? that are helping both to challenge and collaborate with existing players to address customer demands in a changing world.

Most important of all, BNP Paribas emphasised its ongoing commitment and ability to understand and address customer challenges of today, and anticipate and invest in those of tomorrow, from cybersecurity to centralisation, in a spirit of co-creation and common endeavour.

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