Treasury Trends

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Building a Sustainable Treasury for 2024

Key Points

- Financial benefit to cashflow forecasting
- Business risk if not across bank/lender (changing) appetite
- Choose carefully when looking at technology
- ESG - an opportunity for treasury to shine

No change at the top

The European Association of Corporate Treasurers seems to be the first association out of the gate with its annual survey results offering up thoughts as to where priorities lie for the next 12 months, with ESG now sitting comfortably as a core responsibility (at least in part) for treasury. We expect these results to be reflective of wider treasurer surveys for the year

1. Cash forecasting
2. Back to basics (risk, bank relationships)
3. Technology
4. ESG

Unsurprisingly, cashflow management and forecasting remains firmly as 'the' area to work on. Despite it featuring in the top ten for many years, the very fact it remains priority indicates the ongoing displeasure with accuracy, reliability, and timeliness of forecasts. There is still education to be done in this area and the cost of not getting it 'right' has been heightened with the level of global interest rates. i.e. the incentive to ensure you know where your cash is, what you can do with it – and how, and then action with an appropriate pooling or sweeping facility, offset accounts or short-term debt repayment is evident. Those in governance positions are now demanding better reporting on cash, so opportunities to refresh processes with or without technology solutions need to be pursued.

Don't miss the wood for the trees

Working capital optimisation, linked with cashflow forecasting, brings into focus the structure of short-term borrowing facilities, as appropriate, along with wider bank relationship issues. Core aspects of a treasury function have to remain fit for purpose. Money has to flow efficiently, exposures need to be identified in a timely fashion, policies have to be complied with and so on.

De-banking. It's a thing

Treasurers, CFOs, and Boards need to be aware that 'de-banking' is a real thing – whereby a bank terminates banking arrangements with any one customer. Banks' attitudes toward corporate lending have evolved over time due to various factors, including changing economic conditions, regulatory requirements, and shifts in market dynamics. Some of the notable changes in the attitude of banks toward corporate lending include:

- **Risk Assessment and Due Diligence**. Banks have become more diligent in assessing the creditworthiness and risk profiles of corporate borrowers. Since the 2008 financial crisis, banks now employ more rigorous risk assessment models and conduct more extensive due diligence before extending credit.
- **Increased Regulatory Oversight**. Post-financial crisis, there has been a substantial increase in regulatory oversight of the banking industry. Banks are required to meet stricter capital adequacy and liquidity requirements, which has influenced their lending practices.
- **Sector-Specific Lending**. Banks are increasingly selective about the industries and sectors they lend to. Some sectors, such as technology and healthcare, are often viewed more favorably due to their growth potential, while others, like energy or hospitality, may face greater scrutiny due to cyclicality and external factors like environmental concerns or global health crises.
- **Sustainability and ESG Criteria**. Many banks are incorporating ESG criteria into their lending decisions. They may favour organisations that have strong ESG practices and penalise those with poor ESG records. This shift is driven by both ethical considerations and risk assessment, as those with poor ESG performance can be seen as higher-risk borrowers or generally 'undesirable' as customers.

- **Globalisation**. Banks increasingly consider global economic and geopolitical factors when lending to corporations with international operations. Political instability and currency risk have become more significant factors in credit risk assessment.

In summary, banks' attitudes toward corporate lending have evolved in response to changes in risk assessment, regulation, market dynamics, and a growing emphasis on sustainability and ethical considerations. The corporate lending landscape is dynamic, and banks continue to adapt to meet the needs of their customers while managing their own risks and regulatory obligations.

Buy the 'right' solution

Technology application continues to support treasury goals around centralisation, standardisation and having access to 'real time' data – which supports timely decision making. With an increasing number of technology-based solutions being made available in our region, to complement or compete with the traditional full blown TMS solutions, it is ever more critical to scope carefully any search for assistance. Our general view is that every hour spent upfront, working with all stakeholders to map out needs and wants/confirm processes/ensure reporting needs are satisfied/set budget expectations, etc. saves many hours later in the piece dealing with 'unexpected consequences'.

Drive the change

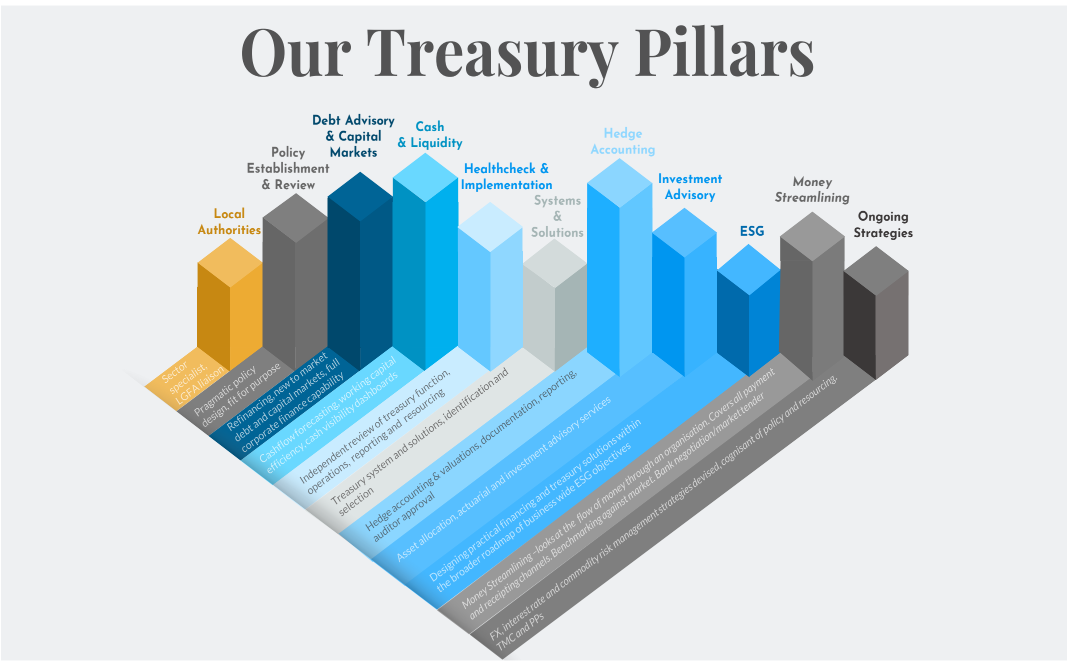
The topic of ESG runs the risk of being seen still as something that needs to be addressed – by someone else. It is true that organisations need to recognise sustainability issues as a whole, and the impact of adopting 'new' policies and practices, but treasury can be an integral part of the overarching strategy. Specifically, treasury is in prime position to highlight direct cost benefits of implementing 'good' ESG practices and working across any one business to encourage and educate in the area. Of particular relevance to treasury:

- **Risk Management**. Being able to articulate, manage and report on key areas of risk is the basis of 'normal' treasury activity. With banks running their own ESG measures and objectives, any organisation seeking funding or other banking services is going to need to demonstrate full and open recognition of its own risks – and what it is doing to mitigate such. We often work with clients to ensure they are 'bank ready' when preparing a request for debt or transactional banking services (preparing forecasts in a known format, appropriate background and strategy, sector risks and mitigants, and so on) and now there is a need to include specific comment and detail on ESG practices, measurement and tracking.
- **Access to capital**. Organisations that align ESG principles with those of the potential lenders/providers will find themselves in a more favourable position to access capital. There are more and more ESG-focused investors which will prioritise fund allocation to those with a strong track record in ESG performance. We are working with a number of clients to explore fully the options around sustainable financing, e.g. loans, bonds, and other ESG-related financial products and offering.
- **Stakeholder expectations**. Boards and councils are increasingly more mindful of ESG considerations as they impact on customers, suppliers, employees, investors, and other financial partners – and regulators. The long-term reputation, and ultimately success, of an organisation can be enhanced by treasury aligning financial practices with overall strategy.
- **Reporting and disclosure**. ESG reporting is becoming a regulatory requirement in many jurisdictions. Treasurers are often responsible for gathering and disclosing financial and non-financial data related to ESG performance. Accurate reporting is essential to maintain transparency and meet regulatory requirements.

To 2024

Ahead of the new year, take time to formalise and socialise your treasury plan and determine the priorities (what, why, how, when and by whom). You need to ensure there is buy-in from all relevant stakeholders – timely then perhaps to exchange initial thoughts with your advisor over a coffee or cup of sustainabili… tea.

WHAT WE DO



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