Nordea

The future of the corporate treasury

From back-office function to strategic lead

A survey of large corporate treasuries and their objectives until 2017

Treasury 2017

Corporate treasuries continue to play a vital role in managing cash flow and liquidity. But how has the treasury function changed and what will it look like by 2017?

The last few years have been eventful for treasuries. They have had to react to a number of regulatory changes and a vibrant macro environment, while operating in the shadow of the 2008 global financial crisis. They have also had to respond to changing working practices, as automation and digitisation have enabled easier and faster transaction and communication processes.

With organisations seeking to introduce leaner, more efficient and increasingly automated operations, it may seem logical to suppose that treasuries will assume a progressively transactional role. But our conversations with leading corporates suggested a much more complex picture.

There is still a significant amount of wariness regarding the stability of the world's capital markets — a concern that feeds into many treasury priorities, such as liquidity, hedging of risk and bank relationships. With these key concerns top of the mind in the treasury, many businesses we spoke with were looking to their treasury departments to act as internal advisers and provide strategic input on funding requirements and how best to limit exposure.

So what is the real picture? Is the treasury heading towards becoming "one terminal and a clerk" or can it look forward to taking on a more strategic role and a seat at the top table?

To find out, we conducted a comprehensive survey of 82 large global corporate treasuries and interviewed more than 60 CFOs and treasurers. This report presents our findings and paints a clear picture of where the treasury stands today and where it expects to be in 2017.

You will find this report particularly interesting if you are a group or regional treasurer, or a CFO with responsibility for the treasury function. And you will also find it helpful if you manage finance for any large organisation.

> Is "one terminal and a clerk" the future for the treasury? Or can it look forward to a seat at the top table?

tweet this

Towards a strategic, centralised treasury

The five key findings from our Treasury 2017 survey:

Cash and liquidity are key

The top priority for treasuries is ensuring access to cash and liquidity. Funding also remains important, with the treasury often focused on optimising arrangements. Perhaps the biggest change in the treasury's portfolio over the last ten years has been the decline in trading activity. Only a third of treasuries still have a trading mandate, and for them the objective is usually to sustain market knowledge rather than to generate a profit.

The future is centralised

Multinational organisations are increasingly looking at centralising their treasuries to give them a better overview of their cash and liquidity positions. And many are recognising that centralisation can help to deliver the efficiencies needed as treasuries take on an expanding workload. Technological advancements are facilitating centralisation as well as a wider evolution in the nature of the treasury.

Beyond transactions to strategic advice

Following the 2008 global financial crash, it has proven both natural and desirable for the treasury to take on strategic responsibility for funding. Treasurers and CFOs alike acknowledge that a key part of the treasury's role is now providing advice to the business, and not simply executing transactions cost effectively. But that is not to say that the transactional element of the treasury's role is going away — this remains just as important as ever.

Companies are hedging more risk

Large corporates are hedging more risks than they were two to three years ago, and most expect that they will be hedging even more by 2017. In particular, corporates are hedging to protect themselves against fluctuations in FX and interest rates. Most are using futures to hedge their risks. But by making mechanical decisions about how much to hedge and for how long, they often lose any potential upside from changes in interest or FX rates.

Banking relationships are changing

The largest corporates are looking to rationalise their banking arrangements wherever possible and work primarily with a small number of core banks to give greater oversight of liquidity and exposure. Their core banks need to understand the pressures that they are under and help them meet their objectives — to manage transactions cost effectively and to lead strategy around funding.

Cash is still king

Seven years after the financial crisis, access to cash and liquidity remains the top priority for the treasury function. But it is also revisiting concepts such as translation risks to limit group exposure.

Today's top priorities

We asked respondents to our Treasury 2017 survey to rate common areas of responsibility. We found that these fall into four clear groupings (see Figure 1). The top tier includes cash and liquidity management, funding and capital markets, and managing exposure to interest rates and FX. And these stand above all other areas of responsibility.

We also asked respondents to rank their key objectives, with ensuring access to cash and liquidity again featuring at the top of the list, followed by reducing borrowing costs.

Before the financial crash, treasuries' areas of responsibility and objectives were more evenly spread. But the crash put liquidity, access to funding, and cost-effectiveness front and centre — and they are still the priorities for the treasury today.

Liquidity, access to funding and cost-effectiveness are the treasury's priorities.

Lost in translation

Our research suggests that managing translation risk has moved up the treasury's agenda. By talking to our customers, we identified two main reasons for this. Firstly, corporates are concerned about their exposure to what they see as artificially strong capital markets — which have been buoyed by the liquidity stimulus provided by central banks. Treasuries are revisiting concepts such as translation risk so that companies are better prepared in the event of a crash.

Secondly, around a third of the corporates in our sample are owned by private equity firms — which we believe is representative of the position across European corporates. Private equity owners are seeking to hedge the equity values of their portfolio companies against non-operational risks — interest rates in particular, but also FX. This has left them more exposed to movements in interest rates and FX, and placed greater pressure on their treasuries to manage these risks.

Is the treasury still trading?

Looking back ten years, trading was a core function for treasuries at the largest corporates. Market conditions provided companies with a strong incentive to attract and retain trading staff within their treasuries. But the market in which treasuries are now operating has changed dramatically.

Given current markets — with ultra-low interest rates and no longer characterised by global financial crisis turbulence — it is hardly surprising that trading is no longer a core objective for treasuries. Our research shows that only a third of treasuries have a trading mandate. And when asked which objectives were growing most in importance, generating a trading profit featured low on the list. The key focus for treasuries has moved to reducing costs and embedding operational efficiencies.

For those treasuries that still have a trading mandate, the main objective is usually to sustain know-how of products and the marketplace. Our discussions with treasurers and CFOs suggest that trading mandates are now typically justified by a desire for market intelligence.

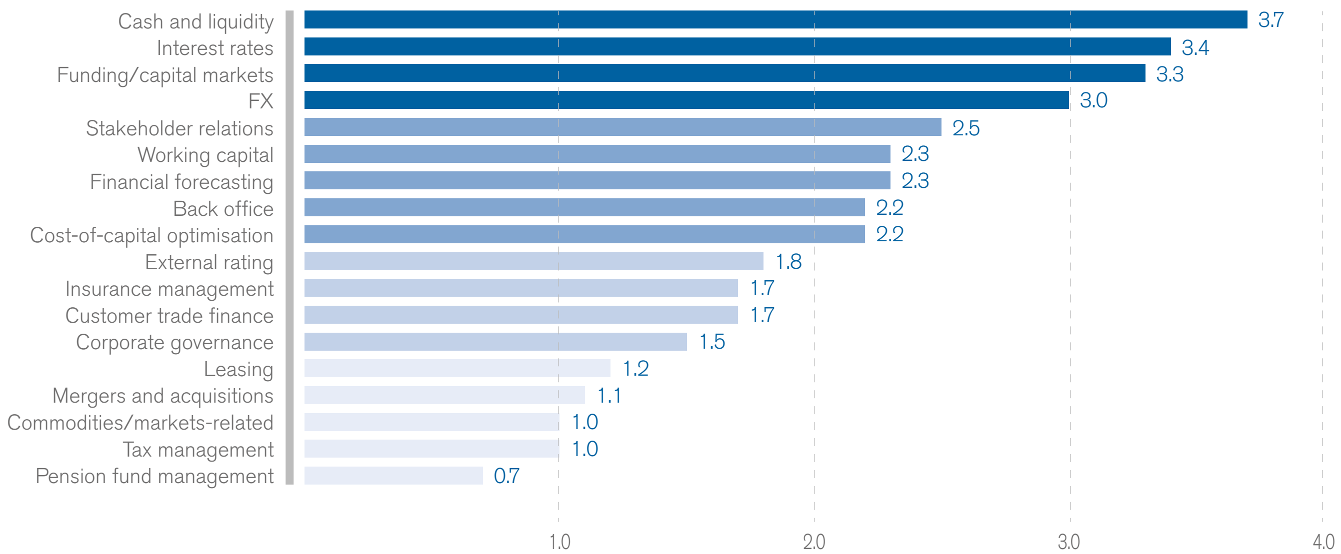


Figure 1: Treasury areas of responsibility, ranked by average rating

Centralisation promises efficiencies

The treasury is under constant pressure to operate more efficiently, and to ensure transparency for compliance reasons. It is seeking to meet these demands by automating processes and centralising the management of group cash and liquidity.

Achieving greater visibility — the internal bank

For treasuries tasked with driving efficiencies and ensuring compliance, both centralisation and the creation of an internal bank can mean cost savings and greater visibility of financing. Providing an internal bank service to subsidiaries was ranked as the third most important objective for treasuries (see Figure 2) — and could grow even more important over the next two to three years. And centralising the group's cash and liquidity is the top priority for treasuries between now and 2017.

> Centralising the group's cash and liquidity is the top priority for treasuries between now and 2017.
>
> tweet this

Centralisation is particularly appealing to corporations that have expanded their operations into multiple countries, and found that their finance arrangements have become more complex and fragmented. It can offer a clearer view of finance and greater transparency of reporting for regulatory purposes. And it also offers cost efficiencies by simplifying banking relationships.

Supporting working capital management

Centralisation is giving treasuries greater visibility and control. It is enabling treasuries to drive through efficiencies in the way they operate and helping to ensure they can provide information when and where it is needed in the business. In doing so, centralisation — and the move towards a full in-house bank model — is enabling more effective working capital management. We are currently conducting a study of working capital management at Nordic corporates, which we will share on Nordea Insights, insights.nordea.com.

Technology drives efficiencies

Technological advancements have been a key enabler of greater centralisation. But they have driven efficiencies in other areas too and are also benefitting those companies not pursuing a centralisation strategy.

Developments in mobile, cash pooling, and web platforms have made it easier for treasuries to handle large volumes of activity. And by reducing transactional pressures, technological developments are allowing treasuries to focus more time on providing advice to CFOs and informing strategic decisions — we will talk about this trend more on page 6.

> Technological developments are allowing treasuries to focus more time on informing strategic decisions.

Optimisation of treasury closer by 2017?

We asked respondents to our Treasury 2017 survey to rank their key performance indicators (KPIs) on the basis of current usage and expected usage in two to three years. While cash and liquidity centralisation is the most used KPI now, treasurers expect it to be less important by 2017. They also believe that KPIs for cost budget and optimisation of the liquidity buffer will be used less often. We suspect that this means treasuries expect to be nearer a full in-house bank model, and to cost and liquidity optimisation, by 2017.

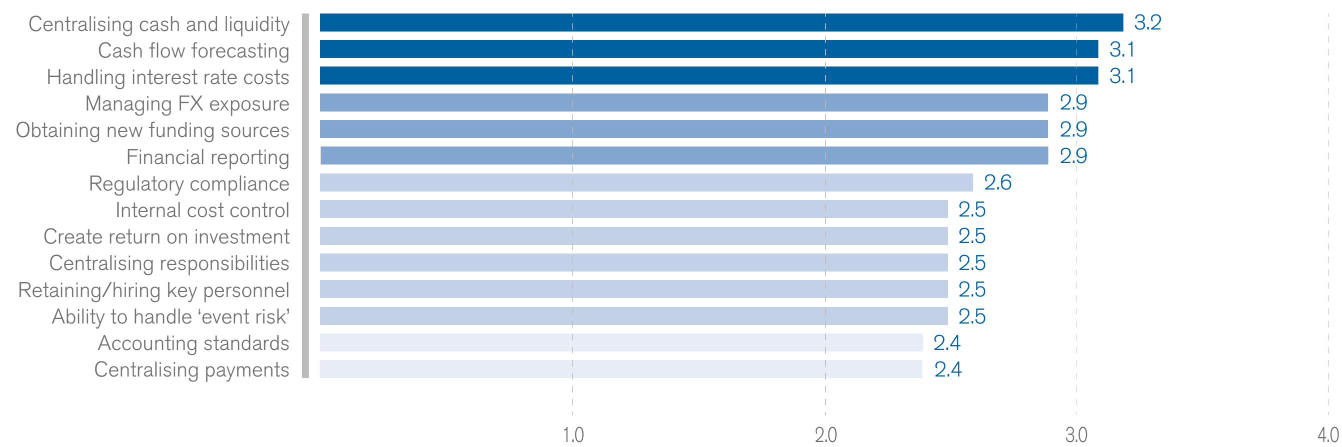


Figure 2: Treasury's priorities over the next two years, ranked by average rating

Evolution of the treasury

Should the treasury be focusing on operational efficiency or seeking to add value by informing strategic decisions? It is already doing both.

Execution, advice and strategy

The pressure on treasuries to process transactions as efficiently and cost-effectively as possible is not going away — indeed, transaction intensity with counterparty banks has increased (see page 8). When we asked treasuries how important execution was to their role, the majority said it has always been very important and that it will continue to be so (see Figure 3).

Alongside this continued focus on execution, treasuries say that they have a growing role as an internal advisory service. And they think that this role will be as vital as transactional work in two to three years' time. When we asked respondents which of their objectives were growing most in significance, offering service and advice to group management came out on top.

The treasury sees its role as becoming increasingly strategic. tweet this

Almost 90% of respondents believe that "participating in decision-making" will be of medium or high importance in their role in two to three years' time.

What do CFOs think?

How well founded are these predictions about a strategic role for the treasury? We analysed our survey responses from CFOs and spoke to them in person to see if they agreed with treasurers that the treasury is becoming more strategic.

Broadly speaking, the CFOs we spoke with did agree. In fact, if anything, CFOs think that treasuries are already playing the analytical and strategic role that treasurers themselves believe is two to three years away.

Just like treasurers, CFOs believe that the treasury's role in providing advice will become more important over the next two to three years; but a higher proportion of CFOs rate this role as very important now. And a far higher proportion of CFOs than treasurers believe that the treasury's input into strategic decision-making is already critical to the business. It looks like treasurers may be underestimating the value of their strategic role.

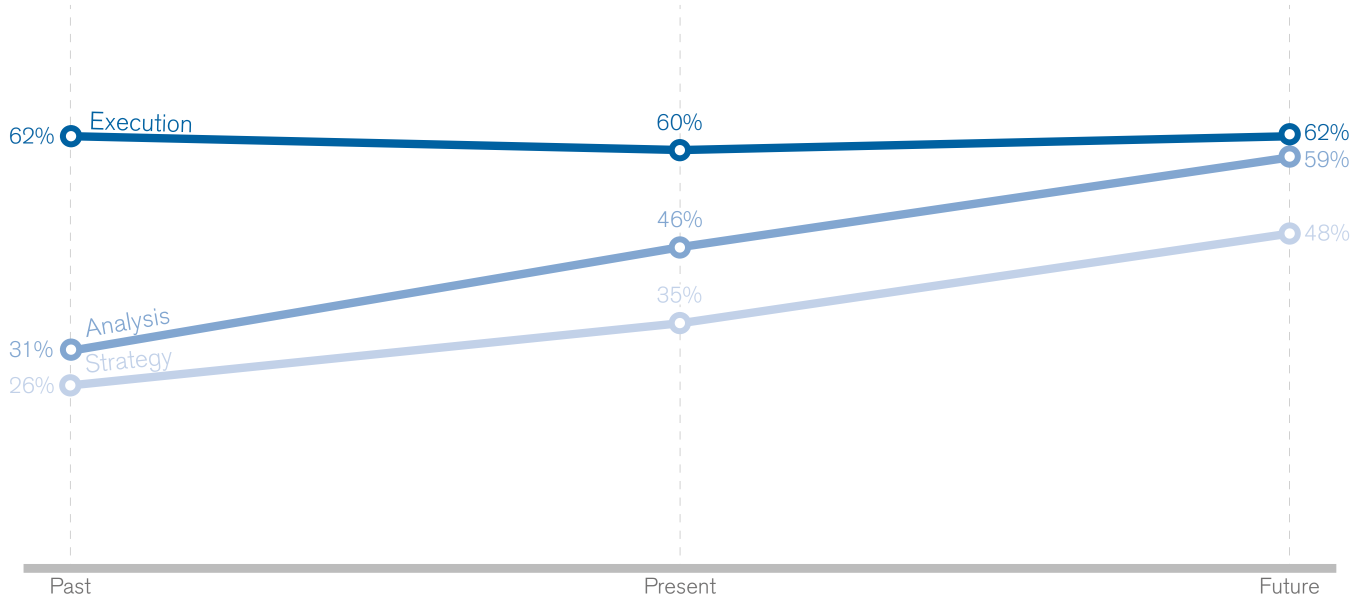


Figure 3: How the treasury views its role (percentage of repondents giving “high importance rating”)

A natural evolution

Our discussions with CFOs suggest that there has never been a formal plan to give treasuries strategic responsibility; and treasurers have not pushed for one. Following the global financial crash, managing funding became more difficult and at the same time more critical for corporates. And macro events since, such as the threat of a Greek exit from the euro and the Russian annexation of the Crimea, have kept the treasury's focus on funding. It has been natural and desirable for treasuries to step up and take strategic responsibility for funding — first advising corporates on how to fund their operations and then on how to optimise funding. The treasury has delivered. Is it time that treasuries received formal recognition of this?

The treasury cannot afford to be inefficient if it is going to balance its transactional and strategic roles.

tweet this

A balancing act

Whether or not treasuries receive this formal recognition, they are under pressure to meet a growing set of demands. They need to be cost conscious while transacting in ever-greater volumes. And they also need to offer an internal advisory service for the CFO and board. The treasury cannot afford to be inefficient if it is going to achieve this balancing act. And that is one of the reasons why we are seeing increasing automation and the use of online platforms to manage transactions, and a growing interest in centralisation.

Treasuries are getting bigger

The treasury's role is expanding. But what about its resources? We found that treasuries have grown in size over the past two to three years — from seven full-time employees to 7.6 on average — to meet the increased demands on their time. For medium-sized corporates, the growth of the treasury has been necessary to support business expansion. For the largest blue chips, it has been largely “involuntary” and driven by a need for more compliance and reporting staff.

Treasuries have 7.6 full-time employees on average.

This growth has been across the board, with the split of treasury staff across different key areas of responsibility remaining largely unchanged. In practice, this means that treasurers typically need to develop a broad set of skills and competencies to manage an increasingly diverse workload — balancing transactional and strategic demands. Given this, we might have expected treasuries to place a greater weighting on hiring and retaining key personnel than they did when we asked them for their priorities over the next two to three years.

Treasuries have clearly stepped up to the plate and managed risk through a challenging period since 2008. But looking ahead, are they equipped with the right in-house skills and competencies to manage the full range of risks they could face — for example, a hostile takeover, sanctions on a trading partner, or a dramatic economic event?

Bank relationships are changing

As their treasuries evolve, large corporates are reassessing their relationships with their core banks.

One primary bank provides visibility
Unsurprisingly, the larger the organisation in terms of turnover, the more core banks it will have. Companies with a turnover of less than EUR 1billion have three core banks on average; those with a turnover of over EUR 5billion have 11.

But, while smaller companies are working with a growing number of banks as they expand their interests, the largest corporates are simplifying their banking relationships.

> The largest corporates are rationalising their banking relationships. tweet this

Many large global corporates are not only seeking to centralise their treasury functions, they are also looking to simplify their banking arrangements to give them a clearer oversight of funding and exposure. Some now have a primary bank, which they turn to for most transactions and support on new business ventures — although they also typically continue to have relationships with other banks if these offer greater presence in a particular market.

Greater transaction intensity with banks
Monthly external transaction activity is greater than it was two to three years ago, and treasurers expect it to have increased further by 2017. The main drivers for this increase in transaction intensity are mergers and acquisitions, and macro events. Technological advancements have also been a major contributor — in particular, the use of electronic platforms to execute transactions more quickly and easily than previously.

> The increase in transaction intensity is putting pressure on treasuries to have more efficient systems.

This rise in transaction intensity puts an even greater responsibility on treasuries to have transparent and efficient systems in place. Banks need to support their customers in achieving this. But they also need to understand the changing nature of the treasury function. Increasingly, banks need to work in partnership with treasuries and advise them on entry into new complex markets and how best they can manage their exposure to risk.

Corporates are hedging more risks
Managing risk and exposure around interest rates and FX figure high on the treasury's list of priorities, both now and over the next two to three years. In line with this, we found that large corporates are working with their banks to hedge more risk — particularly to protect themselves against fluctuations in FX and interest rates.

Around three quarters of companies were hedging FX and interest rates two to three years ago. Most are hedging more of this risk now and expect to hedge even more in the future. And treasuries also expect to carry out more hedging against commodities, income on liquidity and — on the basis of geopolitical instability — the credit risk of their own customers.

> Corporates are hedging more risk around FX and interest rates. tweet this

Those companies that expect to hedge less said that this was because there was insufficient risk or reward in doing so, and because they had already reduced their actual exposure.

Many corporates became more active in hedging following the financial crisis. Private-equity-owned corporates and those involved in real estate are particularly sensitive to interest rate movements and are hedging more of this risk. And some significant fluctuations in FX rates have opened many corporates' eyes to the risks they face here — not least when the Swiss National Bank unpegged the Swiss franc from the euro and when the ruble collapsed.

We have found that most organisations are using futures to hedge their risks. This protects them if sales values are lower than expected due to FX or interest rate fluctuations. But it also removes any possible upside, if sales values increase.

We encourage our corporate partners to think outside the box and be less "mechanical" with their approach to hedging. Hedging a set percentage of risk for a set period of time might take away risk but it also takes away gain. We suggest identifying the key "event risks" that would be hard or impossible to live with, and then considering how to hedge against these. That means you will be hedging against the real risks to your company rather than routinely "parrying noise" on a quarterly or monthly basis.

Keeping lean enables the treasury to add strategic value at BillerudKorsnäs

We spoke with Per Norman, Head of Treasury and Risk Management, about how the treasury supports strategic decision-making at BillerudKorsnäs — a leading provider of renewable packaging material.

What are the key responsibilities of the treasury?

The core functions of BillerudKorsnäs' treasury are cash management, financial risk management, liquidity and funding. In terms of financial risk, we are particularly involved with managing exposure to FX and interest rates — and commodities.

But we also have a more central role, which is perhaps not always the case for treasuries at other companies. For example, we get involved in strategic discussions on the business plan, debt capacity, capital allocation and the group's communicated financial targets. We have managed to be close to our senior management team and support them in many areas.

Have your priorities changed over the last ten years?

Our priorities have definitely changed — but it has been a natural development. In 2012, we acquired our Finnish operation and Billerud merged with Korsnäs. That naturally put a big focus on funding.

We have worked actively with the debt and cash management structure since then and have reached a point where we have a very efficient structure. During the last 12 months the focus has instead shifted towards re-evaluating our finance policy, including financial risk management. We are now looking at a more strategic approach to hedging. We have created a central hedging committee, which I sit on alongside our CEO, CFO and Treasury Manager. We meet to discuss and set our hedging strategy for the company at least every quarter.

What is the most important function of the treasury: executing transactions or providing strategic advice?

The key to the success of the treasury is making things work in terms of funding and cash management. That is the backbone of our operations. We need to make sure we have money when and where the company needs it. But you can try to make this as efficient as possible. And that then gives you the scope to put more resources into qualified strategic support to management. That is when you can really start adding value.

How have you realised these efficiencies?

The transition to SEPA [Single Euro Payments Area] helped us to close down many collection accounts across Europe. And we have introduced an extremely efficient cash management system, with a central cash pool in Stockholm.

What are the biggest challenges facing the treasury?

There are a lot of regulations hitting our banks and us, and the financial arena is changing. In Sweden, we are now facing the challenge of negative interest rates that, apart from lowering our interest payments, has other effects. We need to be light on foot and quick to react to these challenges, and understand their importance. Our biggest challenge is being able to navigate in an ever-changing world.

WITH THANKS TO PER NORMAN

Head of Treasury and Risk Management, BillerudKorsnäs

Per joined Billerud in 2008. He initially worked in business development centrally and then for the company's container-board unit before taking a role centrally with mergers and acquisitions. In parallel with the Korsnäs merger in 2012, he took on his current role as Head of Treasury and Risk Management.

Bringing a new era to life

Our research suggests a bright future for the treasury. Rather than scaling down to "one clerk and a terminal", the treasury can expect to become a strategic leader — at some companies, it has already taken on this role.

To bring this new era to life, the treasury will have to handle a growing and more diverse workload. It will need to become more efficient in the way it manages transactions, but also more knowledgeable about markets and risk.

Be prepared for centralisation

As we have discussed, many large corporates are looking to centralise their treasuries to deliver the necessary efficiencies and improve financial oversight. Of course, there is no "one size fits all" solution. Some may look to centralise just some core activities, such as managing cash and liquidity. And for some, centralisation will not be the answer at all.

Before setting out on a treasury centralisation strategy, we recommend that you fully research what this will mean for your company. It can mean a significant shake-up to staffing and working practices, as well as to your relationship with your banks. A good place to start is to talk to corporates that have already been through the process.

Are treasuries prepared for macro event risks?

There is a growing expectation that treasuries are becoming more critical to businesses by informing strategy around funding and risk. But none of the CFOs or treasurers we have spoken with have claimed that they are now better prepared than they were in 2008 for a significant macro event. And few have carried out a proactive and deep analysis of the impact of big risks. Their focus has been on cost control and compliance.

We recognise that it is not realistic for the treasury to be a permanent crisis organisation that is available around the clock to troubleshoot any issues. But to add real value to the business, treasuries need to make sure they have the capability and competence to advise on the big risks. If this is not available in-house, they should look to work in partnership with their core banks to limit exposure. And that should mean analysing strategic business needs, not mechanically hedging all risk.

> "Treasuries need the capability to advise on the big risks.

tweet this

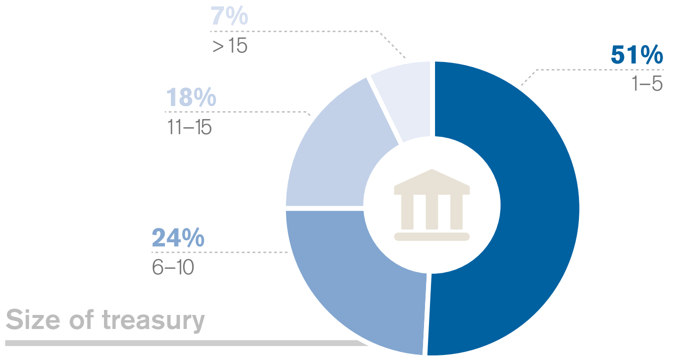
NEXT STEPS

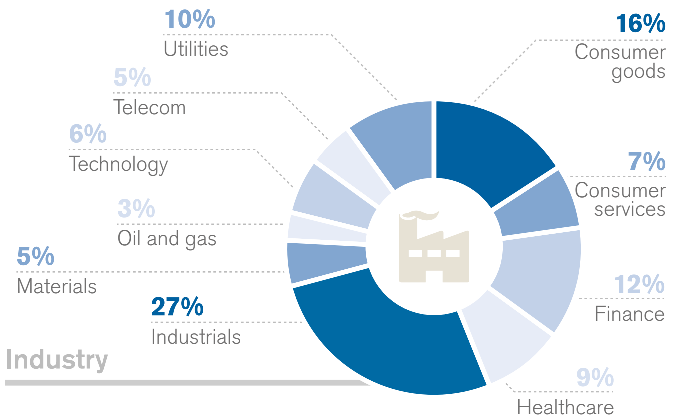
You can find out more about the issues facing the treasury by visiting Nordea Insights, **insights.nordea.com**

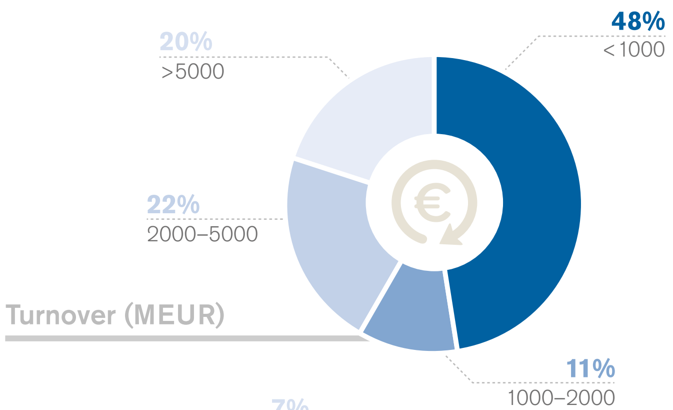
And if you would like to discuss the main issues you face, please contact us. **nordea.com**

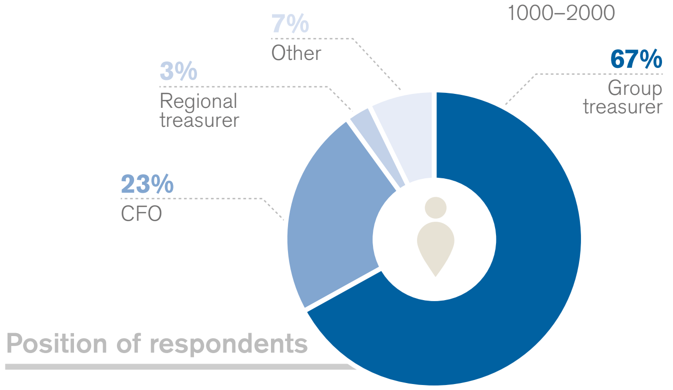
About the survey

The Nordea Treasury 2017 survey was conducted in Q4, 2014. We invited 170 large corporate organisations to participate in an online survey, and received full responses from 82 companies.









About Nordea

Nordea's vision is to be a great European bank, acknowledged for its people, and creating superior value for customers and shareholders. We are making it possible for our customers to reach their goals by providing a wide range of products, services and solutions within banking, asset management and insurance. Nordea is one of few European banks with an AA-rating and is also among the ten largest full-service banks in Europe, based on market capitalisation. We have the largest customer base of any financial services group in the Nordic region, with approximately 10 million household customers and around 500,000 corporate clients. The Nordea share is listed on the NASDAQ OMX Nordic Exchange in Stockholm, Helsinki and Copenhagen.

CONTRIBUTORS

JOHAN TROCMÉ

Head of Corporate Research Sweden

Corporate and Institutional Banking

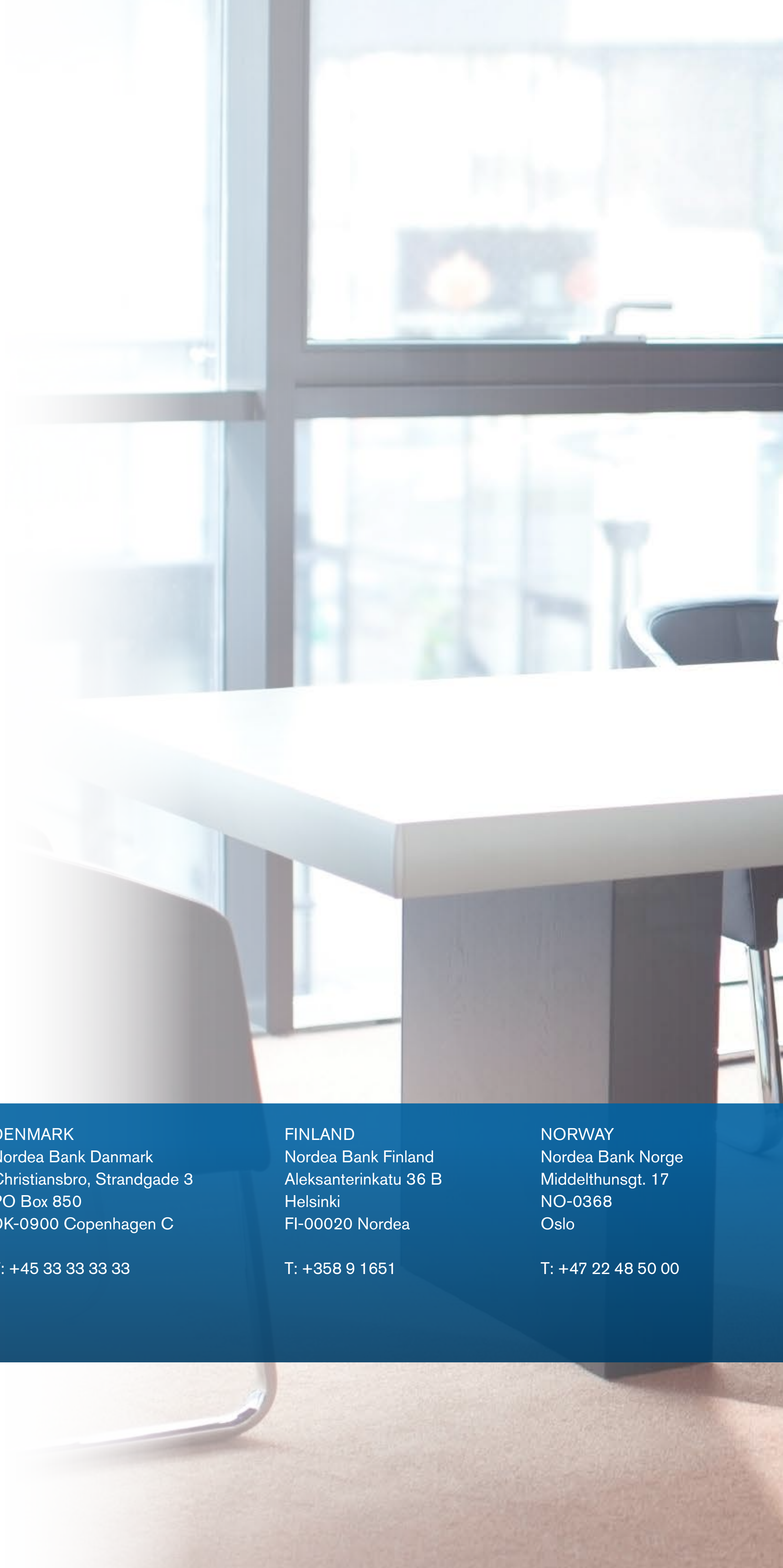
Building on 12 years' experience as an equity analyst at firms including UBS, Goldman Sachs and Deutsche Bank, Johan joined Nordea's equities business in 2006 as Deputy Global Head of Equity Research. He has run the Corporate Research team since 2012. He orchestrated the transition of Corporate Research from an internal support resource, to a customer-facing unit tasked with developing strategic relationships with the largest corporate and institutional customers.

ROBIN SYLWANDER

Corporate Research Sweden

Corporate and Institutional Banking

Robin joined Nordea's Corporate Research team in 2013. In this role, he has helped to originate and present new research themes to the largest corporate and institutional customers. This research has included the Nordea Nordic Hedging Survey, a funding mix study of Nordic large corporates, and a Financial Targets study. Before joining Nordea, he worked for Avanza and then RBS.



SWEDEN
Nordea Bank
Smålandsgatan 17
SE-105 71
Stockholm

T: +46 8 614 7000

DENMARK
Nordea Bank Danmark
Christiansbro, Strandgade 3
PO Box 850
DK-0900 Copenhagen C

T: +45 33 33 33 33

FINLAND
Nordea Bank Finland
Aleksanterinkatu 36 B
Helsinki
FI-00020 Nordea

T: +358 9 1651

NORWAY
Nordea Bank Norge
Middelthunsgt. 17
NO-0368
Oslo

T: +47 22 48 50 00

nordea.com