

# Building a resilient treasury function

**– to protect, manage, and grow**

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# Introduction

The resilience of treasury departments has been tested repeatedly over the past three years. Treasurers have had to navigate a global pandemic, wide-ranging geopolitical tension, and a radically changed inflationary and interest rate environment.

But the result of these intense demands is a treasury function that is recognised as a key part of a corporate's health and long-term growth. A resilient treasury is essential and valued.

A resilient treasury department is one that can achieve three things: maintain stable operations amid external disruptions and risk events, recover from setbacks without suffering a material impact on the company's financial objectives, and support the organisation's strategic business growth initiatives.

Each of these represent significant challenges requiring a diverse set of skills, and they reflect the evolution of the treasury function from being a cash management operation to an advisory and strategic arm of the business.

Consequently, a modern, resilient treasury should be designed to be able to anticipate risks and disruptions, stress test operations to identify and remedy weaknesses, and develop recovery playbooks that will protect the organisation from such extreme events as pandemics, cyberattacks or geopolitical disruptions. Treasury resilience is not just about preparing for known risks; it is about ensuring a company can continue its critical operations even when disrupted by events nobody saw coming.

The article below is not exhaustive but highlights what we believe are the most important drivers for treasury, and some suggested methods that organisations can implement to protect, manage and grow their business. Achieving this requires collaboration between business development, operations and IT teams, so that all are ready for rapid response and recovery should the need arise – and, as recent events show, the need *does* arise.



# Digitalisation

## Capturing a world of opportunities

While the surge in internet and smartphone penetration first helped coin the term 'digital transformation', it was the pandemic that accelerated the pace of the digital evolution. The crisis forced businesses to aggressively **adopt digital** practices, including for treasury practitioners to **work remotely overnight**, requiring access to critical systems and data to perform their responsibilities. That trend, with its success proven under the duress of the pandemic, will stay.

Regulators too have been facilitating this shift with deliberate and aggressive blueprints against the delivery of a digital economy. The robust roll out of 24x7 real time payment platforms with enhanced features like QR code has increased the **speed** with which international commercial transactions occur, and has accelerated the **velocity of money**.

Treasury organisations are rapidly transforming themselves to succeed in this new paradigm where digitalisation is driving the rise of new business models.

A truly digitalised treasury operation provides a golden opportunity – but increased speed brings with it both new opportunities and risks. While supporting business strategic initiatives is important, the core measure of treasury's resilience is its ability to help the enterprise manage but also protect against a variety of risks, financial and – increasingly – non-financial as well.

### About HSBC Treasury Solutions Group

Our Treasury Solutions Group (TSG) brings ideas, expertise and experience to businesses who are actively seeking to transform their treasury. We support treasurers and encourage them to apply these ideas and strategies in practice during their business transformation journeys.

To start engaging our Treasury Solutions Group, contact your HSBC representative.



# Cash and liquidity management

## Going back to basics

**Liquidity risk management** remains the cornerstone of treasury: a sound cash management system is essential to an organisation's effective operation, as it measures its financial health in all market environments. Recent events have forced treasury functions to develop a comprehensive understanding of their **cash flows' flexibility and reliability** during an environment of tight liquidity.

Beyond new business models, treasurers can leverage technologies to achieve internal process efficiencies through not just **centralising traditional processes but also driving standardisation and real time practices**. Real time payment platforms, deployment of SWIFT ISO standards, and SWIFT gpi are some of the industry-wide innovations being deployed. In conjunction with application programming interfaces (APIs), they provide greater visibility and data to help treasurers make smarter decisions.

While technology is important, cash must be entrusted with **strong financial counterparties**. Banks should not only have strong balance sheets and credit ratings, but can help develop comprehensive, secure, trusted technology capabilities to provide services, and bring in practical and relevant best practices for organisations to accelerate digitisation. Banks can also offer specialised solutions for better liquidity management. These help complement rather than replace more specialised treasury management solutions, and include:

- ◆ **Accounts receivables tools** that use machine learning to **automate reconciliation** processes of unstructured files, converting data into a standardised format, matching open invoices and integrating credit entries. This allows easy access to collection flow information.

- ◆ **Cash flow forecasting**, coupled with advancing technologies, can help treasurers use predictive and regression models that learn from customer behaviours and underlying drivers. This approach can be integrated into multiple platforms, reducing manual efforts and improving the quality of forecasts. Using APIs to pull real-time balance information into cash flow forecasting can help treasury respond to unforeseen flows and mitigate any exposures quickly.

A Middle Eastern company that operates a shared service centre leveraged an automated cash flow forecasting tool to streamline cash management and variance analysis, subsequently providing real-time reconciliation that led to 100% visibility on cash flows, and a 50% improvement in forecasting accuracy.

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A global shipping company enabled QR code-embedded invoices in Singapore and Hong Kong, allowing customers to easily scan and confirm real-time payments using their preferred mobile banking applications. This provides a convenient digital alternative for customers to pay in-person, while the company receives funds and accompanying credit information near-instantly to hasten cargo movement.

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# Working capital management

## Thinking beyond the enterprise

Credit and geopolitical challenges impact not just the firm but wider stakeholders including suppliers, vendors and customers. Companies can find themselves unable to pay suppliers or be paid by customers, leading to short-term liquidity stresses for the company and its stakeholders.

A resilient treasury must keep all stakeholders in mind, and advanced treasurers are building out treasury ecosystems beyond the enterprise to instil resilience through the chain, to ensure that a company's entire supply chain is strong and flexible.

Beyond the short-term impact from geopolitics, there is a long-term effect in the form of supply chain realignment. As new sourcing, manufacturing and distribution models are developed by the business, treasury's role is critical. This includes funding of capex, managing new currency and trading flows, choice of invoicing currency, instilling strong working capital practices in new operations, reusing existing systems, processes, and selecting banking partners for payments and cash management to achieve economies of scale.

Banks can also assist with **supply chain financing**, allowing the provision of liquidity to upstream business partners to extend payables and support the whole ecosystem. Other innovative bank solutions can also provide interest-free extension of DPO (days payable outstanding), allowing for improved working capital, cost savings and revenue sharing, plus enhanced reporting.

One of the world's largest consumer goods companies was able to successfully leverage these technologies to move from end-of-day data feeds to real time information feeds across their 290-plus accounts with HSBC, to make faster decisions across funding and FX hedging.

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# Regulations and macro trends

## Keeping up with ever-evolving changes

Regulators and governments are in a constant battle with the pace at which financial crime evolves, making this one of the most fast-changing regulatory fields for treasurers to understand.

Treasurers must also be abreast of changes to banking, capital and foreign exchange regulation at the jurisdiction level, as well as market-wide, often multi-jurisdictional, regulatory changes, such as the replacement of inter-bank offered rate (IBOR) benchmarks with risk-free rates (RFRs) and accounting standards. These have strategic, operational and financial implications for any company. The treasury function is not only expected to remain compliant but also advise company management on developing a resilient model for changing regulation.

Regulatory compliance is a fundamental requirement for treasury functions, including **mandatory regular reporting** of transactions, working capital and funding. A regular review policy can help promote compliance: it identifies and addresses errors, detects fraud and improves risk management. Creating an audit trail is important to check procedures are adhered to against their design, while the data generated also helps inform where further optimisation could be possible.

Treasury functions are increasingly expected to understand, embed and contribute to achieving the company's environmental, social and governance (ESG) goals. This mission has knock-on effects well beyond social good.

A company's failure to meet the ESG standards embedded in their **institutional credit scores** can affect their ability to access capital, and therefore the efficiency of their funding. But the reverse is also true: prudent use of **green finance**, buoyed by sufficient ESG standards to access it, can make a considerable positive difference to their company.

Additionally, the selection and management of suppliers and partners in the company's supply chain and business activities can also impact ESG scores significantly. If a treasury function partners with a supplier which does not embed labour and human rights actions in its practices, this can impact the ESG score of the whole corporation.



# Cybersecurity

## Maintaining data security and integrity

With the growing use of digital channels for payments and financial services, security is vital, especially as cyber-criminals are becoming increasingly sophisticated and cyberattacks are growing in frequency. With the rise in e-commerce, payments can also originate from various sources and be executed through different channels, and there is an obligation to maintain a high level of data security and integrity in payment flows.

Treasury functions must be especially vigilant given the volumes of sensitive data they process. Organisations must implement a strategic approach towards cybersecurity that is embedded in their operations and risk management systems, including creating a 'sanitised' digital operating environment, starting from hygiene issues, such as taking regular inventory of users and their privileges in systems used for treasury and payments. Standardising workflows with embedded controls in treasury and payment functions can also create an environment for resilient best practices to permeate.

These are examples of **processes**, but they represent only one part of a multi-layered approach to cybersecurity risks. This way of thinking understands that culture, people, processes and technology must all be part of a combined approach to this unprecedented threat.

**Culture** means making cybersecurity a board-level priority, with the tone set from the top. **People** refers to the need for human vigilance, which in turn requires constant training both for employees and clients and related parties. And **technology** means building upon advances in preventative and detection technology, and embracing the role artificial intelligence (AI) can play in identifying suspicious transactions.

**Leveraging data and design white-listing** (a cybersecurity strategy that allows execution only through pre-approved apps, IP addresses and emails) for payments can help define the countries and IP



By using advanced technologies such as machine learning, treasury can identify patterns and trends in large volumes of data that are invisible to human analysts.”

Ray Suvrodeep | Managing Director,  
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ranges users make payments to and from. This information is important in preparing for cyberattacks.

**Process governance** offers treasury a thorough view of cash movement after integrating end-to-end business processes. Treasury professionals can collaborate with IT functions to define policy and enable connections with new partners and ecosystems, also helping to minimise fraud. Bottlenecks can be alleviated by enabling technologies like **digital signatures** as virtual working becomes more widespread. Process governance both improves efficiency and ensures integrity in the face of cyber risks.

**Banks** can play an important role here too, with their knowledge of minimising cyberattack risks. Banks educate clients on reporting suspected cases, and advise against making quick and ill-informed decisions. They can help with setting up hotlines to respond to suspicious cases.

Other relevant applications of technology include using **behaviour biometrics** to validate users, multi-factor risk-based authentication tools, and flagging anomalous payments to customers prior to submission. Artificial intelligence (AI) will also play an increasing role in identifying unusual and suspicious transactions, raising alerts and impeding fraudulent transactions.

# Business continuity planning and testing

## Practice drives excellence

A resilient treasury is characterised by **strategic thinking**. No institution could have foreseen the trifecta of supply chain disruptions, economic sanctions from geopolitical tensions, and an economic downturn, never mind a global pandemic. But a robust business continuity plan (BCP) can ensure processes are tested, improved and implemented to navigate adverse incidents, using processes, systems and people to respond to and recover effectively. For example, when the primary payment channel is down and treasury must make a time-critical payment, the BCP should guide on what to use as an alternate payment channel.

More importantly, **communication** throughout the organisation, from treasury to the CEO and board of directors, is essential in achieving this strategic thinking.

## Scenario testing

By visualising a range of plausible adverse scenarios, and the business continuity journeys within them, treasurers can identify where there are gaps or weaknesses, and create contingency measures accordingly. That might, for example, involve identifying the priorities when resources are overwhelmed; or having a plan for outsourcing, with external service providers working on cash management and consultants assisting with risk management. If outsourcing is part of a BCP, the potential recipients of outsourced mandates should be screened and onboarded, with clear service-level agreements (SLAs) set out well in advance of their being needed.

Treasury functions should also plan to **support their stakeholders**, from upstream providers to downstream end customers. An entire execution chain for critical functions must be able to function in a BCP scenario. Clear definition of roles and responsibilities between teams, and identification of critical data and hand-offs, are crucial.

## People: upskilling the most critical component

The adoption of new technologies and digitisation requires **new skill sets** within the treasury function, chiefly around IT and data. Professional knowledge and market acuity will always be fundamental in treasury, but must be complemented with critical skills such as the ability to apply technology to streamline and automate processes, working hands-on with data. Soft skills, such as working collaboratively with other functions to drive transformation, are equally important. This requires an **investment in training**, fostering teamwork and a commitment to retaining top talent. Automating mundane tasks and allowing treasury staff to focus on value-added activities also helps in job enrichment and people retention.

Staff must also develop knowledge in how to deal with seismic events such as cyberattacks and unforeseen circumstances such as the pandemic. Human capital development must not be overlooked, and there must be processes in place to cover permanent departures when they arise.



# The changing role of treasury

The role of the treasury is evolving. It is becoming increasingly strategic, rather than just a risk or cost centre: HSBC's Corporate Treasury Risk Survey found that more than 64% of CFOs at large organisations considered the Treasurer a part of the executive committee – a C-suite role.

This evolution is most keenly felt in the digital journey that companies can and must take. Many treasurers consider driving digitisation to be part of their job. The European Association of Corporate Treasurers Survey found that almost 60% of treasurers put treasury technology review, and the replacement of IT tools, as a key priority over the next 12 to 24 months. As organisations pivot to become more digital, treasury must be equally adept at helping the organisation manage that transition.

Since digitisation is key to any corporate story, so too is the role of the treasurer in enabling it. This trend cements a sense that treasury is not just about

risk and the protection of a company's continuity, but is also an engine of growth. If, for example, a resources company is considering whether to reach out to distributors individually, or to sell through its own e-commerce platform, treasury must facilitate the collection of sales made on that platform. It must assess the information that comes in, and make recommendations based upon it. Treasury must be responsible for connecting with banking partners to ensure the initiative is a success. All of these are characteristics not just of a support function, but a growth function.

The corollary of this is that treasurers must be given the tools commensurate with a growth function. They must be given access to real-time data, allowing them to make decisions more quickly. They should be backed by stakeholders who value what the true role of treasury is. And they must be granted the space, time and resources to affect a transformation within an overwhelmingly fast-changing environment.



# Protect, manage, grow

In this fast-evolving landscape of driving business growth whilst balancing diverse threats, treasury practitioners have not only been tested but have emerged stronger than ever. Through challenges, they've pushed the boundaries of automation, embraced digitisation and pioneered hybrid working models.

The bottom line: a resilient treasury isn't just important, it's indispensable. With refined risk management, relentless innovation and thoughtful process optimisation, a thriving treasury department becomes the cornerstone of every prosperous organisation. It's not just about survival; it's about thriving in the face of change.

## Authors



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Ray has over 20 years of experience in designing and implementing treasury, liquidity and payments solutions for corporates and institutions across industries and geographies. He leads a team of treasury specialists with diverse backgrounds and experience in multiple treasury disciplines, supporting treasurers in applying practical strategies in their business transformation journeys. He has a keen interest in studying evolving business models and enjoys co-creating with clients to help thrive in the new economy.



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