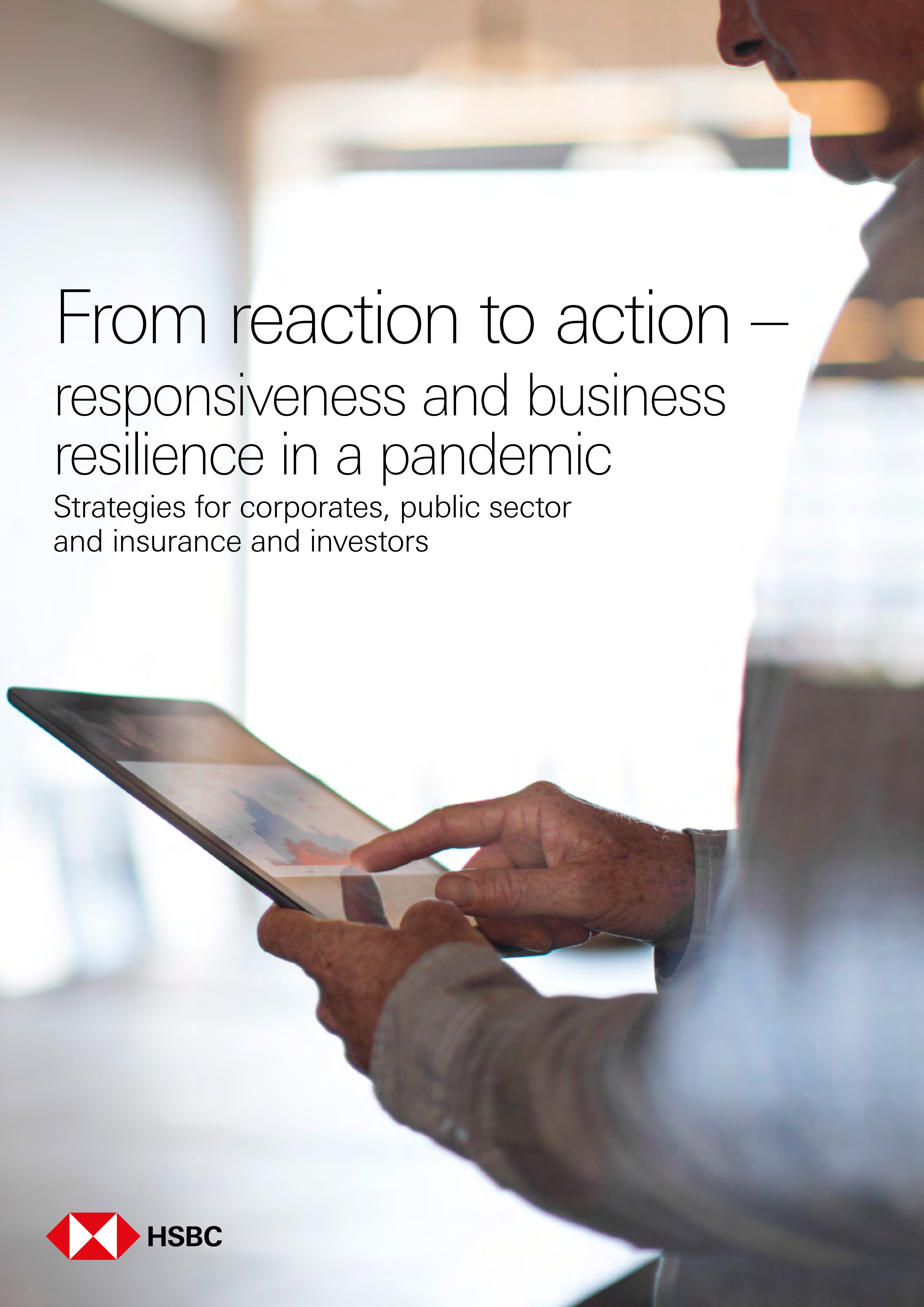
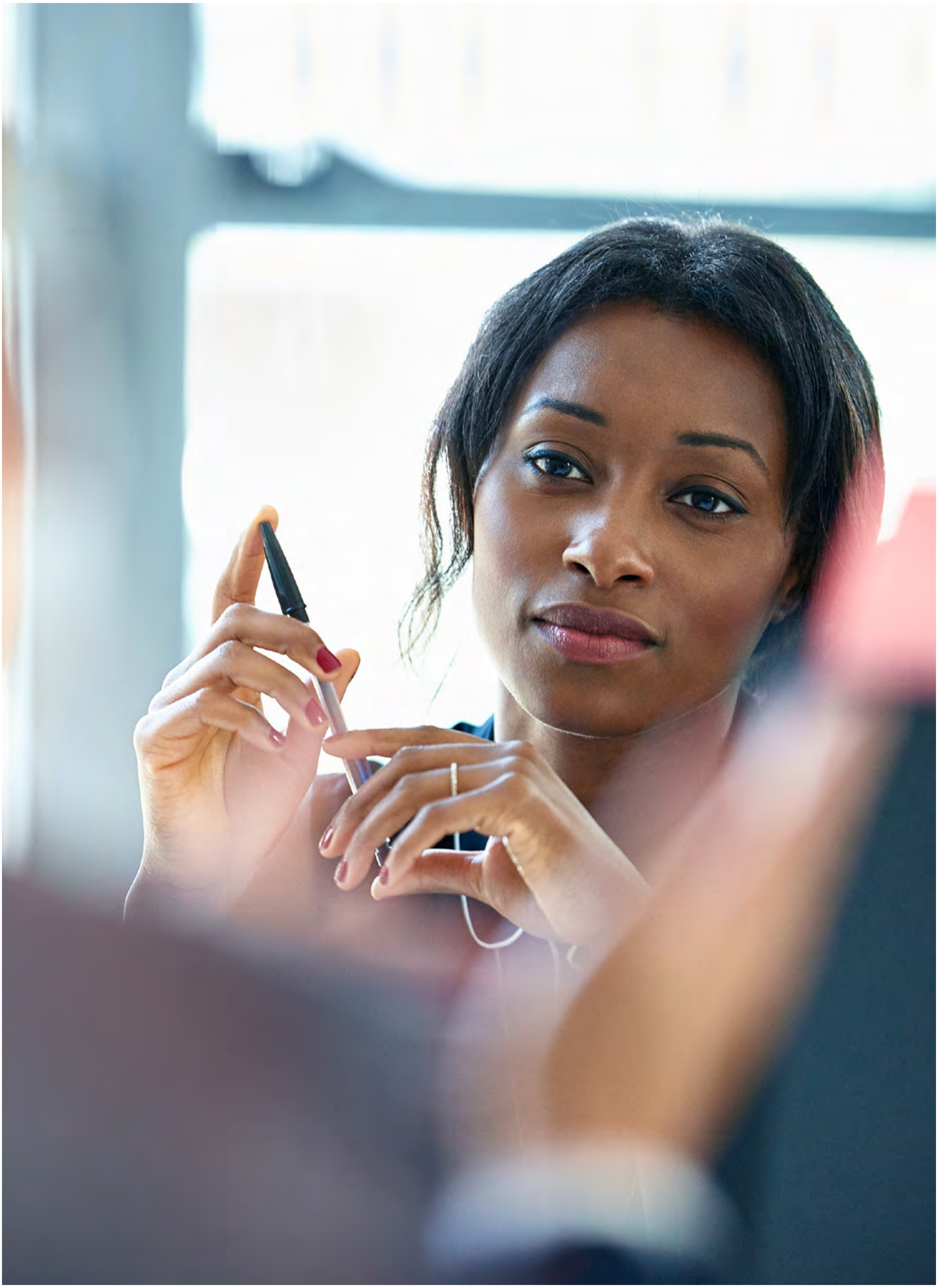


From reaction to action – responsiveness and business resilience in a pandemic

Strategies for corporates, public sector and insurance and investors

HSBC



From reaction to action –

responsiveness and business resilience in a pandemic

The short-term: shoring up liquidity

In the initial phases of the Covid-19 pandemic, multinational treasury teams had to rapidly come to grips with their firms' overall liquidity position, and establish the ability to access the liquidity they needed, when they needed it. At a time of great uncertainty and stress, the onus was on treasury teams and their banks to act quickly to keep companies going both operationally and financially.

While a number of treasuries had existing documented stress scenario models, these may not have been extensive enough to reflect a market-wide stress event, such as Covid-19, that crossed country borders and currencies, and encompassed suppliers and customers alike, in all industries. Exacerbating the initial impact of the pandemic were near-zero to negative interest rates in five of the G10 currencies, and a fundamental shift in the availability and price of crude oil.

Immediate reactions to the crisis coalesced around invoking business contingency plans and securing liquidity and contingency funding:

Invoking business continuity plans: The most successful business continuity efforts were focused on:

- Enabling effective and secure remote working, including remote authorisation. With cyber criminals targeting the less stringent security of a home-working environment, protecting against heightened cybercrime risk became a key component of any remote working implementation
- Transitioning to digital channels and mobile information access, relieving the pressure on 'business as usual' processes, such as cheque processing for payments and collections. HSBC accelerated the rollout of mobile device authentication, enabling almost 70,000 customers in 44 countries in just seven weeks, and saw user adoption rate increase by 228%. Mobile authentication, or the use of 'soft tokens' not only dispenses with the need to deploy physical tokens that could break or get lost, but also assists in ease of access and thus, improved productivity

Securing liquidity and contingency funding: Treasury contingency plans typically focus on the availability of cash, ensuring availability to meet the immediate and short-term obligations of a firm. There was intense activity around:

- Drawing down of credit lines to shore up contingency liquidity
- Applications for government-backed funding amid a challenging overnight Commercial Paper market
- Movement of funds into more accessible accounts, often sacrificing longer-term investments and target yield for liquidity and security. Some decisions required interim corporate governance approval to deviate from AAA requirements/target yields
- Flight to quality, with cash flowing to stronger counterparties that had demonstrable financial and operational robustness, coupled with the client commitment to respond to what was an accelerating crisis

Locking-in the lockdown lessons – measures for the medium-term

HSBC worked closely with clients to ensure rapid response measures were enacted across the globe. Moving forward, lessons learned from the initial reaction to the pandemic should form the basis of a more measured 5-step medium-term response:

Step 1

Look back and learn: A Covid Audit will enable treasurers to review actions taken during the initial response and lock-in those appropriate for the medium term. Short-term fixes should be revisited and regularised. Proactively identify and address areas where interim processes may have created potential cybersecurity weaknesses, and update service agreements and corporate governance policies in line with the new processes.

Step 2

Recalibrate for resilience: Treasuries should then recalibrate cash and liquidity structures to enable them to respond to the 'new normal'. Structures that may have been fit-for-purpose during 'business-as-usual', may not afford sufficient flexibility in the 'business unusual'. A review should focus on three core elements: establishing real-time reporting to enable decision-making, recalibrating structures and processes to bake-in agility, and accessing acceleration solutions to enable rapid responses in the future.

Step 3

Create a Liquidity and Funding Contingency Playbook: This goes beyond cash flow; it is an existential question for firms. Development of a playbook should focus on three key elements:

- Scenario Planning: Conduct a comprehensive analysis of stress scenarios, each with varying severity, anticipating associated liquidity requirements
- Counterparty Relationships Review and Risk Assessment: Review key counterparties – from financial services partners (banks, investment managers and insurance providers) to key suppliers and customers
  - It is important that a firm's banking partners have the financial strength to provide access to liquidity and lending, and the stability to withstand market shocks. They must also demonstrate robust business continuity plans to remain fully operational, able to accelerate transaction flows for critical cash, and offer uninterrupted processing
  - The financial health of key suppliers and customers is equally important to maintaining a healthy cash flow. Firms may wish to consider reviewing and re-stating credit profiles of critical buyers and suppliers, aligning mutual contingency plans and re-modelling cash flow impact. Methods to provide suppliers under stress with access to early payments or financing, or payment extensions for buyers, should also be considered. Ensuring stability of supply is key, and supply chain diversification reduces concentration risk, particularly in a crisis situation where there is disruption in the flow of goods across markets
- Corporate Governance Updates: Ensure policies and processes are updated, with the required approvals and authorisations, to enable swift implementation of the playbook scenarios when needed

Step 4

Equip your team with the right tools: Once a treasury team has created a liquidity contingency playbook, the next step is to plan how the playbook should be implemented in a crisis. Key is ensuring that treasury teams are fully operational and equipped. This means not only having the ability to access the required treasury management system (TMS) and enterprise resource planning (ERP) modules remotely, but also having the right data and insights for accurate planning and decision-making, and the ability to safely initiate and authorise transactions:

- Enable visibility and actionable insights via digital tools that provide information on cash positions and the ability to drill down by currency, entity and geography.

  HSBC's Liquidity Management Portal (LMP) provides treasurers with a consolidated view of cash positions globally, with the ability to view all the way to individual account level. It also has self-management tools that enable treasurers to make quicker funding and investment management decisions, and execute on them without having to engage with the bank. As an online portal, it can be accessed remotely on all devices, allowing firms flexibility in continuity of business scenarios.

- Structure for velocity and self-service. Cash utilisation, mobilisation and centralisation structures should facilitate faster and more efficient movement of cash around an organisation to where it is needed.

  Liquidity centralisation and risk management strategies should formally incorporate secured balances from subsidiaries into automated liquidity solutions, FX and, where possible, OBO structures.

- Forecast the future: The crisis has exposed the limitations of spreadsheet-based cash flow forecasting solutions that prevent firms from conducting more complex, stress analysis needed for ongoing scenario planning.

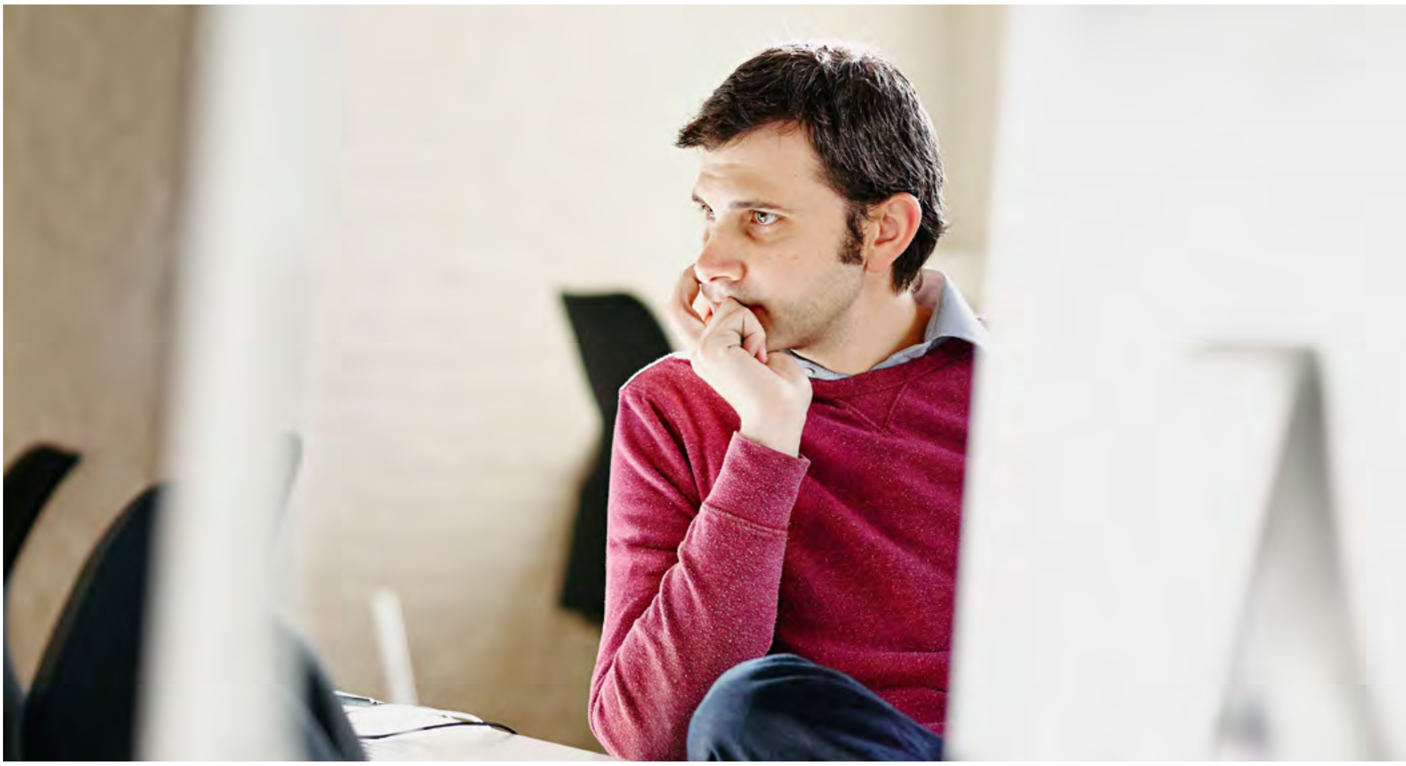
  HSBC's Cash Flow Forecasting (CFF) solution is embedded in the multi-bank LMP, and enables stress analysis based on real-time data. Treasurers can compile a forecast of all cash movements that impact an organisation's day to day cash position, from the present to any time horizon into the future. Like the LMP, the HSBC CFF tool can be accessed from anywhere in the world – a critical feature in a remote working scenario.

Step 5

Establish infrastructure in the right places: When locating treasury operations – including shared service centres and payments factories – treasurers should consider both the infrastructure and political and country risks of a location to ensure any business continuity plan can be enacted. A sufficiently robust infrastructure must exist locally to enable offsite or remote working to ensure continuity of business.

Local market expertise, both within the firm but also from banking partners, is crucial. The ability to react locally while leveraging global systems and processes are a key differentiator for HSBC, who can not only provide market advice and insight, but also has the capacity to quickly shore up operational support locally.

Key markets where a firm has a high cash flow dependence must be identified and the appropriate digital infrastructure set up to enable cash to flow into and out of those markets. Local regulations will also need to be factored into planning liquidity structures.



With the help of a platform that offers intuitive actionable insights and dynamic scenario modelling, firms should consider:

Real-time reporting for decision making	- Revisit customised and granular reporting to support refreshed liquidity availability, market volatility - Review currency and market risk parameters and establish means of regular monitoring
Recalibration of structures and processes to bake-in agility	- Review cash pooling structures to add new approved counterparts and currencies to centralised in-house bank (IHB) or cash pool - Align parameters on trigger/target balance amounts, MT101 bank transfers, accelerate timing of MT942s and incorporate API balance call feeds into bank and corporate infrastructures - Amend overdrafts and intercompany cash limits across liquidity hierarchies to reflect real-time payments and receivables needs - Reflect new liquidity structure constituents and current market/transfer pricing in intercompany loan reporting - Review impact of currency mix, country and currency risk in accessing liquidity - Rationalise/consolidate accounts to increase control, and reduce cost, risk, and fraud. HSBC's Next Generation Virtual Accounts facilitates account rationalisation
Acceleration solutions to enable rapid response	- Review investment strategies and policies, including currency mix and parameters, netting and FX hedging - Establish virtual account management to ensure control over subsidiary balances and compliance with local bank usage and limits - Use online channels to initiate, track and record revised authorisations and digital signing of payments, liquidity and contingency documentation - Use HSBC's GPI Tracker to monitor status of payments and receipts to identify those requiring intervention

Figure 1: Recalibrate for resilience

Scenario Planning	**Comprehensive stress scenarios with varying severity:** - Run-rates for daily, monthly and quarterly processes incorporating key commitments (tax, core suppliers, buy-back & dividend commitments) - Cost of funds assumptions for each liquidity source - Liquidity provision waterfall per stress scenario, detailing stressed cost of funds over run-rate and most cost-efficient/expedient funding sources and currency mix requirements - Outsourcing/offshoring contingency and continuity planning
Counterparty Relationships Review & Risk Assessment	**Risk parameters across a variety of stress scenarios for banking, investment and insurance partners, having confirmed bank and government back-stop commitment** - A review of credit profiles of critical buyers and suppliers - Alignment of mutual contingency plans and re-modelling of cash flow impact - Creation of a framework and supply chain playbook for expedient responses to customers seeking payment extensions or financing - Restate and automate 'Early Warning Signals'/triggers for country, currency, counterparty and customer risk - Diversify bank counterparties to access lending, ensuring banking partners can support corporate requirements in a crisis - Diversify supply chains to ensure continuity in a crisis as some markets become unavailable - Ensure intercompany and third-party netting cycles reflect the requirement to pay critical suppliers earlier, changing Ts&Cs, and FX volatility
Corporate Governance Updates	- Ensure key changes/flexibilities are signposted with respect to core policies impacted, such as IT & cybersecurity, FX hedging, investment guidelines, BCP contingency authorisations, counterparty limits - Review Ts&Cs of government funding schemes - Identify jurisdictions that can be added for on-behalf-of (OBO) multicurrency payables and receivables solutions that incorporate instant/pay later and mobile wallet payments - Ensure compliance with transfer pricing regulations, which cover cash pooling & investments, FX hedging programmes, intercompany pledges and guarantees

Figure 2: Liquidity and Funding Contingency Playbook

Building business resilience for the longer-term

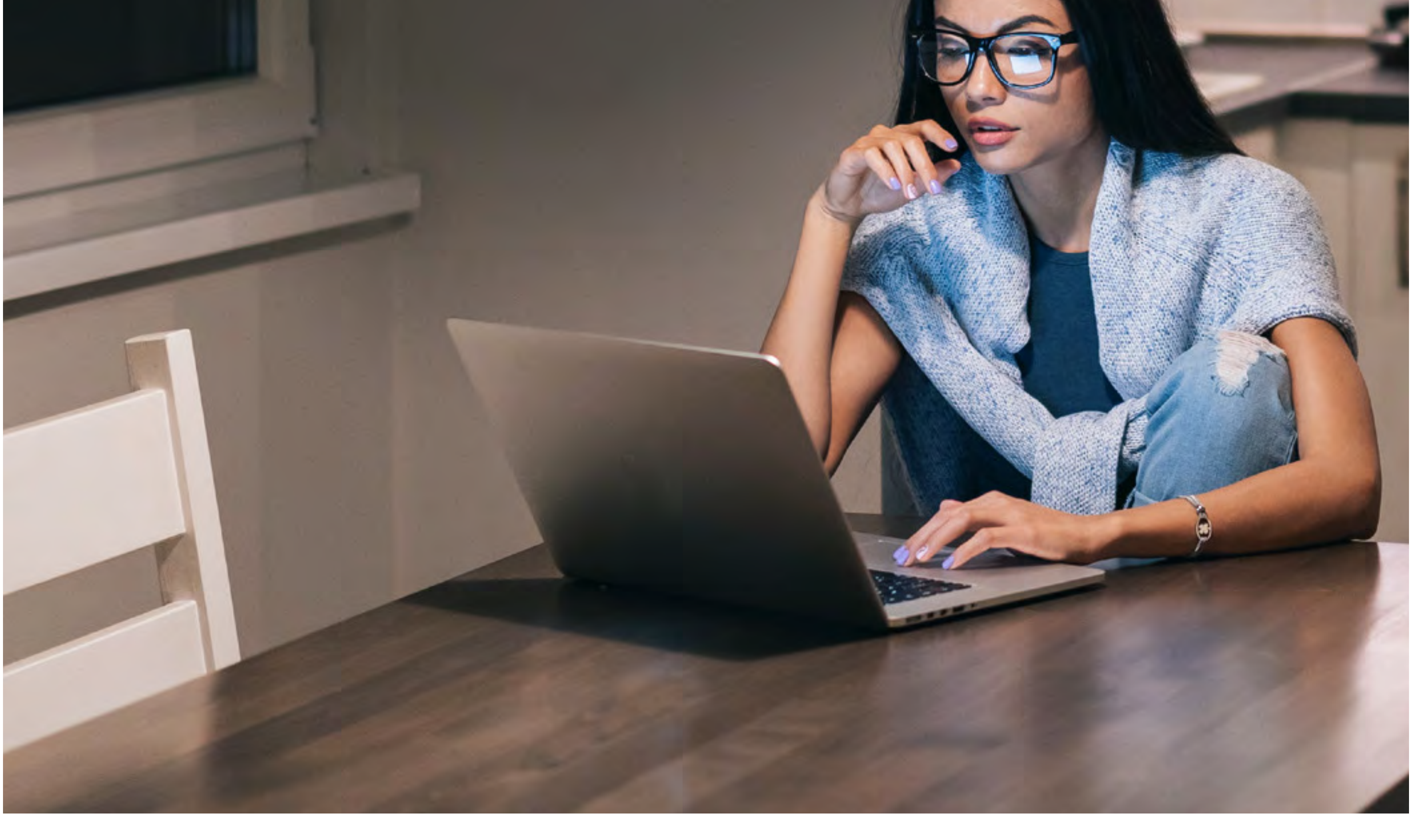
Digitisation has been fundamental in providing the visibility, access and agility that treasurers require to make dynamic, informed decisions. The crisis has strengthened the business case for transformation into Treasury 4.0 and will be key to building resilience throughout the firm and future-proofing operations.

Critical areas exposed by the crisis as fertile ground for digitisation are operational efficiency and risk mitigation, and enabling new business models.

Operational efficiency and risk mitigation:
Treasurers should consider prioritising areas that are manually-intensive and vulnerable to risk.
Some front-runners include:

Automation/Digitisation	◆ Liquidity & risk management dashboarding ◆ Bank account balance aggregation ◆ Payments optimisation including corporate and virtual cards to provide B2B working capital benefits ◆ Request to Pay ◆ Operational efficiencies using robotic process automation (RPA) to simplify manual tasks, such as bank account balance aggregation and reconciliation, and low-value, non-critical FX conversions ◆ Rules-based automation to enable Just-In-Time liquidity & risk actions ◆ Rules-based automation for investments that will allow firms to define parameters on an absolute value or percentage basis, with automatic execution around balance, FX spot and hedging, overnight investment/ redemption into approved accounts or money market funds
Data infrastructure & actionability	◆ Robust, real-time liquidity, funding and risk management dashboarding and counterparty assessment ◆ Advanced reconciliation of payments and collections ◆ Behavioural and predictive analytics in fraud and anti-money laundering, manual interventions and credit profile assessments

Figure 3: Areas to consider for digitisation



Adapting to new business models: The global response to Covid-19 accelerated e-commerce strategies. Firms recognise that current solutions must be recalibrated or changed. As business models move online, treasurers need to consider the underlying payments, FX, and financing capabilities they will require from their banking partners. Equally, some firms that had traditionally been in the purely business-to-business space, began experimenting with direct-to-consumer models. This will change the size, volume and velocity of payment flows and ultimately, cash and liquidity strategies.

Another potential longer-term impact of the pandemic is a reshaping of industry verticals, as firms look to divest, acquire or merge. Post-acquisition or post-merger treasury integration will provide firms with an impetus for digitisation, enabling flexibility in the levels of visibility and control required.

Centralised access to data through cloud strategies and application programming interfaces (APIs) will underpin digitisation. These technologies combine to promise real-time, advanced, and actionable analytics across financial, commercial, and behavioural data and insights. Boards should support them as a key programme of work for treasuries. Much of the planning, information validation and target state design work can be refreshed with lessons learned during the pandemic.

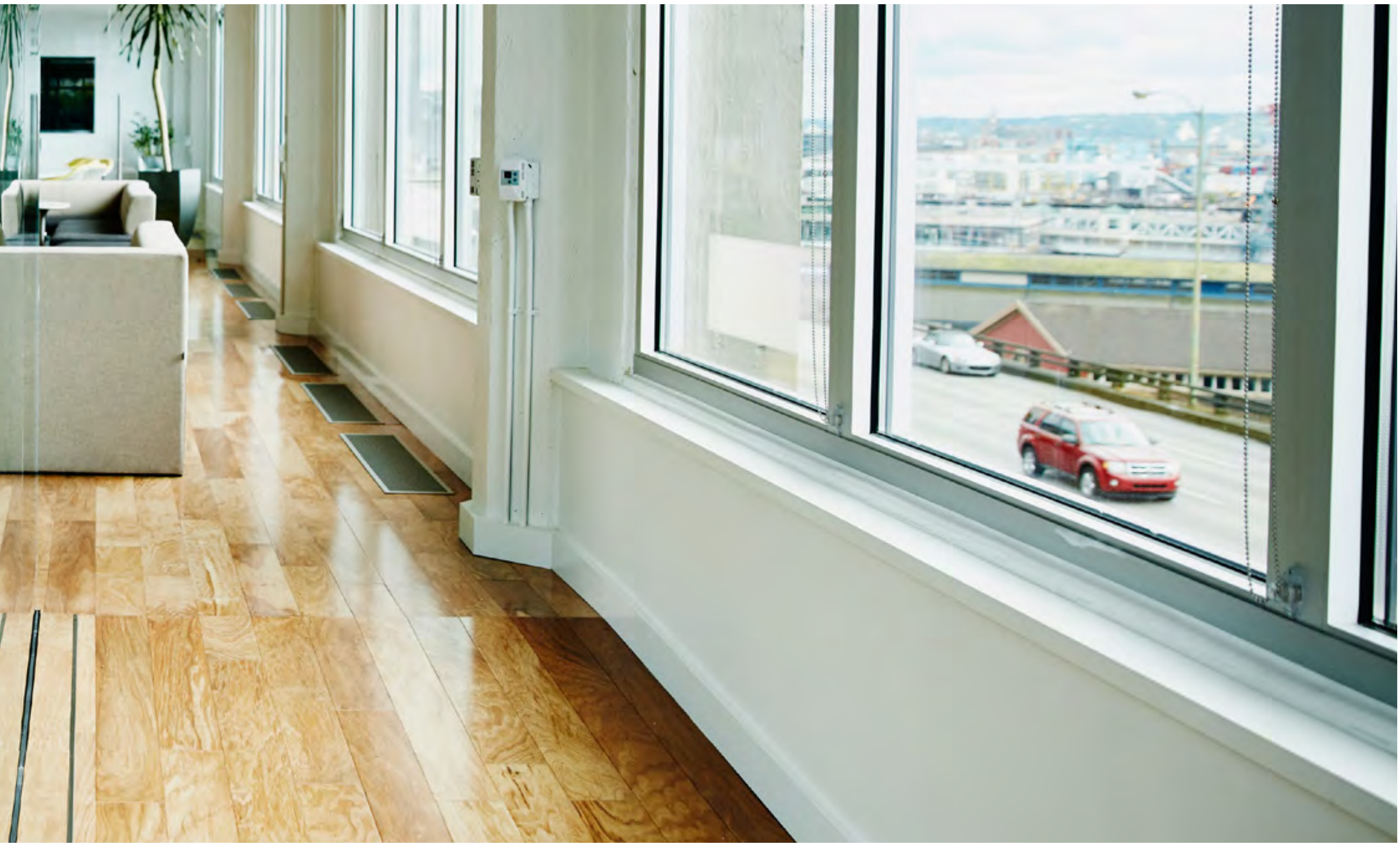
Looking back to move forward – support in a rapidly changing world

At the height of the pandemic, a company's most valuable resource was its liquidity. Effective liquidity management, utilising digital tools to provide superior visibility – and hence the ability to forecast accurately – helped ensure the survival of the entire organisation.

The ability to manipulate a company's liquidity profile in real-time – embracing Treasury 4.0 – is now effectively an existential matter for the entire organisation. It should be on the mind of every board member of every firm across the globe.

HSBC recognises the continued challenges facing treasurers amidst a dynamic, constantly-changing crisis. We are committed to continuing to invest in digital as a key business enabler, not only for the bank itself, but also for our clients.

In the weeks and months to come, we will continue the dialogue with treasurers, as we look back to move forward. Together with our clients, we will craft responses that will protect their businesses in the medium-term, in order to build business resilience and help them thrive into the future.



For more information on how HSBC can help meet your needs please contact your local HSBC representative or visit **gbm.hsbc.com**

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