HSBC's Guide to Cash, Supply Chain and Treasury Management in Asia-Pacific 2015

Working Capital Edition

Foreword

HSBC's Guide to Cash, Supply Chain and Treasury Management in Asia-Pacific 2015: Working Capital Edition

Welcome to the latest edition of HSBC's Guide to Cash, Supply Chain and Treasury Management in Asia-Pacific, which aims to provide our readers with a range of valuable insights and informed opinions from some of the region's leading banking and business professionals. This edition focuses primarily on working capital and some of the latest banking solutions that Asia's most progressive companies are implementing in order to free up cash flow and improve liquidity.

In today's ultra competitive global market, exporters are under increasing pressure to offer open account trade to buyers who are eager to extend their payment terms with suppliers in order to generate cash flow and reduce borrowing. And while this obviously places an additional burden on cash flow for sellers, the latest generation of supply-chain financing solutions provides a way that companies can compete for business and meet the terms of their buyers, without necessarily increasing their own risk exposure or having to secure external financing.

Many leading organisations are also looking to further automate some of their critical back office procedures in order to optimise efficiencies and free up working capital. Introducing an automated accounts receivable solution not only drives internal back office efficiencies, but also helps mitigate risk, improve visibility and control, and improve company liquidity.

Company credit constraints can also create an added burden when it comes to cash flow and the supply chain, and can cause significant obstacles in terms of doing business if the company is unable to free up working capital in order to pay vendors on time. Smart organisations are increasingly looking to unique solutions in order to improve cash flow and keep the sales cycle moving, one of which is the introduction of a virtual corporate credit card that can be used to cover company expenses and pay vendors alike.

The role of the corporate treasurer is also changing, moving towards a more proactive, organisation-wide approach to liquidity management. No longer simply accountable for providing critical tools to manage cash flow and negotiating contracts, today's elite treasurers are perpetually improving their approach to working capital management, weaving this into the very DNA of their business in order to preserve liquidity.

And finally, as the ASEAN bloc continues to grow in economic stature, corporate treasurers throughout the region are looking to Southeast Asia as a strong choice of locale in which to establish a centralised treasury hub. Now, with the advent of the ASEAN Economic Community (AEC) on our doorstep, we explore the progress that has been made in terms of establishing the AEC and the key incentives that are being offered in some of the region's key markets.

I would like to conclude by thanking the various clients, colleagues and external experts whose editorial contributions have brought such knowledge and expertise to these articles. With their support, I have every confidence that you will find this guide both interesting and insightful. We look forward to sharing our next update with you.

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Cash flow challenges from increasing open account trade

Due in large to the ongoing development of global supply chains, many large multinational companies now prefer to offer open account terms to their suppliers in an effort to speed up production and delivery cycles, improve margins, free up cash flow and save costs. However, in an increasingly competitive environment characterised by a heightened aversion to credit risk, this move can increase pressure on the cash flows of their suppliers. Sriram Muthukrishnan, Regional Head of Business Development, Global Trade & Receivables Finance, Asia-Pacific with HSBC, shares how some of the region's leading companies are alleviating the strain.

The process of buying and selling goods and services is almost as old as man himself, however in today's global marketplace, the way in which companies do business has become increasingly complex. Not only are organisations now competing on a much larger stage than ever before, an ever-growing number of distribution channels and fundamental advancements in logistics and shipping have led to a search for new banking products that help enable international trade quickly and easily.

Key insights

- The pressure to meet buyer payment terms is greater than ever before
- An increasing number of suppliers are agreeing to open account terms in order to seal the deal
- This benefits buyers in several key ways, most notably by extending payment terms by up to 90 days
- Open account trade is considerably more agile than traditional methods of trade finance such as letters of credit
- Many companies are engaging in accounts receivable factoring, which enables the business to sell its accounts receivables to a third party
- Bank collection services can also alleviate back office strain without the need for traditional borrowing
- Through supply-chain financing, the seller can leverage the buyer's credit rating and ability to pay for the goods or services at a later time in order to access funds up front
- With the right banking partner, open trade account terms can benefit both the buyer and the seller

In the past, tools such as letters of credit have been used. However today more and more organisations are implementing open account trade terms in an effort to increase sales and gain a competitive edge. According to the World Trade Organisation's International Finance Corporation, more than 80 per cent of global trade is now transacted using open account terms.

When it comes to either local or international trade, an open account transaction is a sale in which the goods or services are delivered before payment is due, in some cases even after they have been sold to the end user. While this was not always the case, the rise of the global or regional buying centres within large corporations has resulted in a fundamental shift in power in favour of the buyer, which means purchase terms are increasingly aligned to the buyer's working capital optimisation objectives. And because payment is often not required until after the goods or services have been delivered, buyers benefit from an additional source of free cash flow for up to 90 days or more, and are therefore encouraging suppliers to sign up to these extended open account terms, rewarding them with 'preferred supplier' status.

In today's fiercely competitive market, the pressure to meet buyer payment terms is greater than ever before, and as a result more and more exporters are looking to this practice in order to seal the proverbial deal. Exporters who are reluctant to extend credit to their buyers may lose the sale, especially if their competition is willing to do so. Moreover, open account trade is considerably more agile than traditional methods such as letters of credit, which are both cumbersome and costly.

However, this also leads to some obvious concerns on the part of the seller. Exporters must be thorough in their assessment of the political and economic risk, and be fully aware of any local legislation that could stand in their way. They must also be absolutely sure that the customer will accept delivery of the goods and pay at the agreed time before they enter into any open account transaction. While these risks can by and large be managed using a range of trade finance tools such as trade credit insurance and forfaiting for example, the greatest impact of open account trade lies in the lengthening of the cash conversion cycle. Without cash up front or even a partial down payment, it can be extremely difficult for exporters to cover the costs of manufacturing (or to secure funding to help ease the burden of paying for it in advance).

So how do companies go about ensuring they receive these benefits while mitigating the risks associated with open account trade? The good news is there are several banking solutions that can deliver.

The changing face of supply-chain financing

There are several supply-chain financing methods that companies are now using to free up working capital and improve company cash flow while still offering open account terms. Smart organisations are increasingly looking to accounts receivable factoring, which enables the business to sell its accounts receivables to a third party, giving them access to cash more quickly than if they had to wait until the invoice had been cleared. The terms and nature of factoring differs depending on the banking partner, however companies can access up to 100 per cent of the value of their invoices quickly and easily using this practice. Many banks also offer collection services, which can help eliminate back office strain, and because this isn't a loan it offers considerably more flexibility than traditional borrowing. These structures help both large and small buyers arbitrage risk and improve liquidity.

Alternatively, supply-chain financing can also be used to help build a level of trust between the two parties and ensure strong contractual responsibilities are in place. With supply-chain financing, the bank allows the seller to leverage the buyer's credit rating and ability to pay for the goods or services at a later time in order to access funds up front. Also known as supplier finance or reverse factoring, this enables the buyer to extend their payment terms without causing additional cash flow problems for the seller, minimising risk across the supply chain in the process. Meanwhile the buyer optimises working capital and the supplier generates additional operating cash flow, making this a win-win scenario for both parties. Some of the primary benefits include:

For the buyer:

- The ability to extend payment terms with suppliers, generating free cash flow;
- A potential reduction in the cost of goods sold, which stems from reduced financing charges for the supplier;
- An opportunity to effectively optimise working capital metrics and create an economic value add;
- Stronger relationships with suppliers, especially small-to-medium sized enterprises, as a part of ongoing Corporate Social Responsibility; and
- Greater supply chain loyalty and sustainability to support top-line growth.

For the supplier:

- Access to an additional source of financing, ideally at a relatively lower cost;
- Easier management of financial metrics and credit standing thanks to the typical 'without recourse' nature of this financing;
- Stronger relationships with buyers because it demonstrates support for their top-line growth strategies; and
- A reduced need for debt, which can be focused on additional investments.

Other supply-chain financing alternatives that continue to be widely used include standard bill discounting, which is a short-term loan solution that enables companies to borrow money against their sales invoices before they have been paid. Meanwhile some companies favour import financing, which helps the seller meet any financial obligations associated with the manufacturing process while affording favourable payment terms to the buyer.

Obviously traditional trade finance tools such as letters of credit, standby letters of credit and guarantees will continue to be widespread for the foreseeable future, but smart companies are turning to these newer products to help alleviate the cash flow strain.

Conclusion

While at first glance, open account trade does in fact place an additional burden on the seller, there are several key benefits for both parties of any transaction that can help not only speed up the cash conversion cycle, but they can also foster corporate growth and encourage international trade. And with sellers under increasing pressure to offer these terms in order to secure a steady flow of trade, smart companies at both ends of the deal are looking to find the right banking partner in order to help them smooth the flow of goods and services and improve time to market, thereby making this an attractive option to all corporates, and not just buyers.

10 steps to alleviate cash flow challenges caused by increased open account trade

When trying to alleviate the additional burden placed on company cash flow caused by offering open account terms to buyers, there are several tried and tested best practices which companies should adhere to:

1. Review the upsides in the internal company processes such as procure-to-pay, and order-to-cash for example. More often than not, you can find a week's worth of working capital trapped in the cash conversion cycle.
2. Benchmark your working capital metrics against peers, customers and suppliers to ensure they are appropriate and effective. Define your target Days Payable Outstanding for working capital optimisation
3. Properly understand the impact of your plans on your overall supply chain so that you can forecast potential risks
4. Use appropriate structures for working capital needs that are financing specific in order to ensure more competitive and sustainable financing
5. Identify potential sources of pressure on cash flow such as liquidity, counterparty, interest rate and FX rate for example, and actively manage those risks
6. Standardise payment terms and credit terms, which will improve the predictability of your liquidity
7. Agree an efficient dispute resolution process with suppliers and buyers in case problems arise further down the line
8. Automate reconciliation of your bank statements, allowing your finance team to focus on preventing cash flow challenges rather than simply offering back office reactive support
9. Look to outsource high volume, high touch processes such as documentary credits, invoice management and settlement to suitable vendors with clear service level agreements in place
10. Constantly review progress on the previous nine steps and adapt

Optimising receivables to generate working capital

Improving company liquidity through automation

Group treasurers and finance leaders throughout Asia-Pacific are looking for ways to ease the burden of their account receivables process in order to free up working capital and deliver better business performance. René Michau, Head of Payments and Receivables of Global Payments and Cash Management for Asia-Pacific at HSBC, explains how automation not only drives efficiencies, but also mitigates risk, strengthens visibility and control, and improves company liquidity.

The average accounts receivable process should be relatively clear-cut in theory. Money is exchanged for goods and services – either up front or after delivery – and these payments are reconciled against the general ledger before the funds are made available as working capital. In reality however, this process is made considerably more complex due to several key factors.

Key insights

- Automating the accounts receivable process delivers benefits beyond operational efficiency
- A reduction in reconciliation effort can decrease Days Sales Outstanding (DSO) and provide faster access to funds for use as working capital
- Accurate reporting and enhanced visibility, by improving the quality of the receivables book, reduces credit risk and improves the organisation's ability to secure external funding
- Streamlining the accounts receivable process removes manual tasks and the likelihood of human error, while freeing up time for higher-value activities to drive revenue realisation and company growth

New distribution channels and a diverse range of remittance methods can complicate the accounts receivable process, making it harder than ever before to monitor incoming payments. The fact that we operate in an increasingly global economy combined with an accelerated rise of international trade plays a significant role in complicating the core treasury function.

In addition, far too many organisations continue to rely on a traditional, often manual, process to manage their accounts receivable, employing an army of clerks to arrange credit terms for each client based on a host of factors including payment history, past disputes and how regularly the client buys the product or service. This team is also accountable for creating credit or debit notes for customers, as well as following up with a series of reminders when money is overdue.

Once a payment has been made, the finance team must plough through each and every settlement and cross-check it against outstanding amounts or invoices held in the ledger or Enterprise Resource Planning (ERP) system. Given many suppliers pay multiple invoices at once, or may not provide a precise instruction as to the exact invoices they are settling, this often means the treasury team must resort to analysing the narrative from company bank statements or even contacting the customer directly in order to decipher what has actually been cleared.

Following this, the finance department is also required to invest time and effort acknowledging receipt of payment before embarking on the drawn out task of making these funds available to the corporate treasury department to cover salaries and core costs, pay suppliers, invest back into the production process or finance company debt.

This entire process is not only extremely time consuming, it is often heavily manual and therefore prone to human error. The combined result is an added burden to the company in terms of liquidity and working capital irrespective of the business model in place. In addition all of these activities can have a profound impact on the credit exposure of the company and the relationship it has with its customers. As a result, an increasing number of corporates are looking to optimise their accounts receivable process and automate data processing activities in order to streamline procedures, enhance visibility, mitigate risk and free up time to focus on their core business.

Accounts receivable optimisation

Until recently, the standard approach to optimising the accounts receivable process was to focus on cutting costs, reducing inventory, changing payment terms and incentivising clients to pay more quickly. However in today's market, more sophisticated corporate treasuries in Asia are enlisting the help of a banking partner that can help them free up working capital by speeding up the conversion of payments into cash, reducing the risk of error, capturing critical information and generating client communications with an automated solution that will integrate seamlessly with their existing ERP or finance system. While the specific benefits vary according to industry and business model, on the whole there are four key advantages to automating your accounts receivable process.

Speed and scalability

The impact of a slow, manual accounts receivable process varies depending on industry and business structure, however there are benefits to automating this process whether one operates a pay-in-advance or a pay-on-delivery model.

Companies that are paid up front tend to be relatively well capitalised already, and are therefore less concerned with the DSO measure for example. As such, the key benefit of an automated system lies in the reconciliation process. Firstly, automated reconciliation reduces the risk of human error, which can cause costly legal problems. Secondly, it provides faster access to funds which can be channelled immediately back into the business to execute the service or manufacture the product, ultimately speeding up delivery times. This is absolutely critical for companies that rely on just-in-time manufacturing.

Examples of companies that require payment up front include several leading IT providers, travel agents and insurance companies. However, it is worth noting that an automated system can also benefit non-banking financial institutions in terms of regulations. In some markets, local legislation prevents or limits these institutions from benefitting financially while they hold client funds, which means it is imperative that they apply the money to the appropriate instrument or policy within a certain time frame.

Companies that operate under a pay-on-delivery model have realised vast additional benefits from an automated solution. Firstly, the time taken to reconcile the accounts is significantly reduced and the DSO measure is dramatically improved, which in turn accelerates the deployment of cash into the business. The DSO is calculated from the time the invoice is issued to the time funds are applied to the outstanding item in the ERP. Manually this could take weeks, however if this is completed in three to five days, funds are released earlier which reduces the reliance on other sources of liquidity.

Secondly, an automated receivables solution can assist with scalability and speed to market. If companies can reduce the amount of time it takes to process receivables they can free up working capital to fund their daily operations. At the same time companies can reduce the amount of external funding required to support business expansion and growth in the long term.

Companies that lack clear visibility struggle to demonstrate the quality of their receivables and can therefore find it difficult to secure external financing. Optimising accounts receivable can help overcome this challenge by providing greater visibility of the book, which in turn improves credit risk management protocols and the ability to source external funding.

Corporates that understand their receivables book in detail or have implemented an automated solution are much better positioned to discuss receivables financing based on their payment flows with their banking partner, regardless of whether they are looking for short, medium or long-term funding. They can also utilise their entire receivables portfolio in order to secure financing by leveraging the credit ratings of stronger clients on an individual basis and lesser-known buyers collectively. This opens the door for more effective ways of funding operations, which can be extremely helpful as organisations try to manage working capital.

One of the biggest challenges facing a group treasurer lies in the operational risk associated with managing multiple client accounts. Not only can funds be incorrectly allocated or credited, there is risk associated with accessing long-standing deposits in the company account that can't be identified. The reconciliation process is therefore critical to liquidity. By implementing an automated solution this operational risk can be significantly reduced, providing easier access to funds that are already within the business.

In many companies the operational cost of employing a large finance team, devoted predominantly to managing receivables, is high. However, automating the receivables process can shift the focus to higher-value activities and enable the department to cope effectively with rapid business growth without the need to increase operating costs. This is especially important for organisations that are experiencing a transformation in their business, such as a shift to online selling or heavy investment into growth strategies, because it allows them to stay focused on the new distribution channels that will enable revenue generation without impacting the cash flow that funds this expansion.

Conclusion

At the end of the day, optimising the accounts receivable process by introducing an automated system can significantly improve daily treasury operations and free up working capital trapped in the process. By choosing the right banking partner, the corporate treasurer can not only ease the burden of manual labour associated with this important task, they can mitigate risk associated with slow, manual processes and free up time so that the team can focus on strategic growth objectives and build the business. An automated solution also improves speed to market, encourages scalability and affords greater visibility, which in turn reduces credit risk to the corporate. And with the right banking partner in place, this can be achieved relatively quickly and smoothly.

Case study (Fast moving consumer goods company)
A case for automation

With net revenues in excess of USD65 billion, this global conglomerate owns a number of leading brands. The company's modern trade segment is one of its key distribution channels and the organisation works with more than 12 of the largest modern retailers in India contributing to more than 10 per cent of the their in-country revenues.

The large volume and complex nature of incoming payments, combined with a resource intensive manual process, made invoice reconciliation onerous and challenging. The accounts receivable function was costly to operate and resulted in poor visibility and control of the company's receivables position. With an anticipated strong sales growth rate, as well as increased labour and infrastructure costs in the Indian market, the current operational model was thought to be unsustainable.

As such, the company embarked on a process-reengineering project that aimed to introduce automation throughout their receivables process and increase visibility over the collection cycle. Increasing the quality and availability of remittance data was critical to its success.

A comprehensive receivables management solution was implemented to deliver:

- Immediate payer identification facilitated by a virtual account solution;
- Faster payment posting and credit release to customers via comprehensive intraday reporting delivered on the hour;
- Enhanced integration between the customer's ERP and banking system to reduce manual intervention and data entry;
- Increased quality and availability of remittance information by automating the preparation and integration of various remittance advice formats.

The amount of change required to migrate from a firmly-embedded manual process to one that is automated was significant, and included a customised integration to accommodate the customer's ERP and enable a seamless flow of data to and from the bank. HSBC's Implementation team provided experience and expertise, working closely with the company's project team to overcome these challenges with limited corporate resources in a tight timeline.

Using proven HSBC Transition Management methodology, the project was divided into four stages:

- **Initiation** – Thorough analysis of existing reconciliation processes to identify areas for improvement;
- **Planning and preparation** – Development of a comprehensive project plan with detailed timelines, roles and responsibilities for each party during each transition activity;
- **Solution and integration design** – Customised solution design to satisfy all the project objectives. This included file specifications, reconciliation configurations, as well as ERP development to ensure completeness of the end-to-end processing; and
- **Implementing and transitioning** – Consultancy to support the company's change management activities. A training programme was designed and run jointly to ensure all stakeholders obtained the necessary knowledge and buy-in for the new process.

The project was implemented in phases starting from the appointment of a pilot retailer with a small number of retail outlets/centres. Learnings and insights from the pilot provided the company with the confidence to expand and accelerate the rollout to the other retailers.

The key outcomes made a significant difference to the organisation. Firstly, the company drastically reduced manual effort and cost associated with end-to-end process automation, resulting in a 50 per cent improvement in efficiency. This also released in excess of 9,000 man hours per year that can be spent managing exceptions and pro-actively following up with client payments. In this area, the company has already achieved an 82 per cent match rate, which is approximately 12 per cent above the industry standard of 70 per cent. In addition, the organisation also achieved 100 per cent payer identification using a virtual accounts solution providing timely and enriched information on receipt of electronic credits.

The end result also improved visibility and control of the accounts receivable process and provided seamless integration between the bank and company's ERP system ultimately reducing the operational risk associated with manual data entry errors.

All improvements were achieved without impacting the creditor's payment and reporting processes. The acceleration of credit releases and reduction in posting errors greatly improved end-customer satisfaction.

Releasing working capital with corporate cards

Improve cash flow efficiencies by implementing a corporate purchasing card programme

Managing the working capital impact of cash flows can give even the most experienced corporate treasurer a headache, regardless of whether they work for a medium-sized enterprises or a complex global organisation. HSBC's Sanjiv Razdan, Senior Vice President and Regional Head of Corporate Cards Commercialisation, and Con Archis, Regional Head of Corporate Cards of Global Payments and Cash Management for Asia-Pacific, explain how you can release working capital by introducing the humble 16-digit corporate card account into a company's purchase to pay processes.

Ask any corporate treasurer what keeps him or her awake at night and you can almost guarantee cash flow is near the top of the list. Ensuring a steady flow of cash is a critical task in any organisation irrespective of the industry in which it operates, because in its most fundamental form, cash is the driving force that keeps the company alive. Whether it is needed to pay salaries and suppliers or service loans, without a solid flow of cash the organisation will not succeed.

Key insights

- In today's competitive global economic environment many obstacles threaten company cash flow and tie up working capital
- Company credit concerns create an added burden on the supply chain threatening relationships with critical vendors
- Increasingly smart companies are implementing a corporate card solution that speeds up vendor payables and reduces Days Payable Outstanding (DPO), ultimately improving production cycle efficiencies and reducing time to market
- A corporate card also reduces operating costs, improves visibility and strengthens internal controls and policy compliance
- The corporate card account allows organisations to manage payments across a full spectrum of expenses while freeing up cash within the business

This is why so many corporate treasurers work hard to develop a robust working capital strategy that maximises cash flows, reduces the company's reliance on short-term debt and ensures it can cover its current liabilities and operating expenses. And while this might at first seem a relatively simple task – sell more and ensure buyers pay on time – in reality this is not the case.

The complexities of cash flow

In an increasingly interconnected global economy, there are many obstacles that threaten company cash flow and tie up working capital. Geographic spread can cause challenges thanks to an ever-growing reliance on global supply chains, which often offer significant reductions in terms of production or delivery costs. However, credit constraints can create an added burden on the supply chain if the organisation is unable to free up working capital in order to pay vendors in a timely fashion. As such it is important that corporates ensure easy access to cash or credit to keep the relationship moving smoothly.

Poor visibility over the entire accounts payable and receivable processes can also create problems, especially when organisations are trying to secure short or medium-term financing to cover the cost of daily operations, satisfy supplier payment terms and implement a growth strategy. Having a clear line of sight over your outstanding payments not only affords you greater control over your liquidity strategy, it also enables you to apply for credit as and when the company needs it.

Many companies are under pressure to reduce expenditure, and again this can be challenging when you are tied to lengthy internal payment protocols that leave vendors and suppliers waiting for invoices to be settled. This in turn can jeopardise efforts to negotiate better rates or faster delivery times that benefit the end customer. Implementing an automated solution that utilises a virtual 16-digit account number based on a card platform allows companies to drive vendor payables faster while also improving the impact of Days Payable Outstanding metric, which ultimately improves production cycle efficiencies and reduces time to market. And while it might sound paradoxical, a corporate card enables organisations to pay vendors more quickly while extending their DPO at the same time, because most companies rely on supplier credit to manage their DPO.

Corporates are also increasingly under pressure to reduce operating costs associated with travel, entertainment and daily expenditure, which often requires a more robust management process and strong cash position in order to meet payments up front or in short lifecycles. Again, this puts pressure on organisational resources and can create an impediment in the effective management of company cash flow.

Organisations are also faced with an ever-increasing slew of regulatory challenges depending on the market and industry of operation. These can come in several forms, for example the company might want to reduce reputational risk that has perhaps arisen as a result of slow payments, or it might be under increasing pressure to improve internal controls and compliance related to spend policy. In other instances, organisations may be motivated to streamline inefficient processes in order to improve employee productivity and enhance controls through the use of electronic workflow tools.

Overcoming these challenges can be difficult, especially due to the complex range of cash and trade finance products that are available in the market today. As a result, many companies are looking for innovative ways to manage these complex issues, but require a solution that is administratively easy to implement, cost effective in terms of change management and powerful enough to deliver tangible results in managing cash flows. The corporate card delivers on all of these levels.

Whether the organisation is looking to improve cost efficiencies and cash yields, or tackle greater issues such as working capital financing or strengthening internal controls and policy compliance, a corporate card offers an easy solution that helps companies manage working capital on a broad scale. A relatively mature product in the armoury of the treasurer, the corporate card is being redefined to manage payments across a full spectrum of expenses, from business travel and entertainment to supplier invoices and general operational costs, while freeing up cash within the organisation.

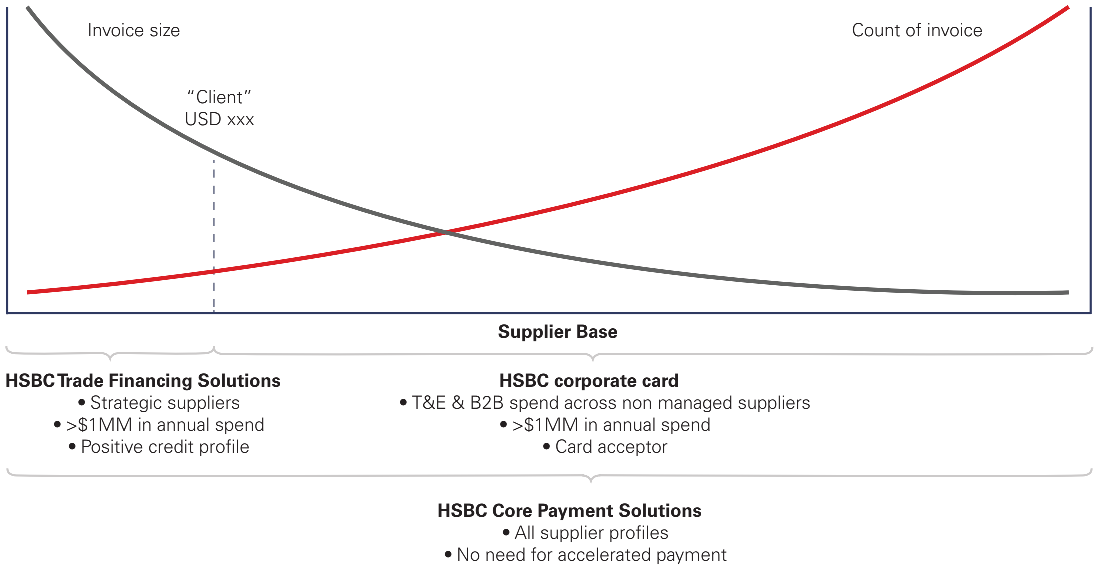
The new face of corporate cards

The corporate card has come a long way since the first credit card launched in 1949. In today's information age, where so much of our daily lives are focused online, the corporate card no longer needs to be a physical manifestation handed out to employees throughout the company. Today more progressive banks are increasingly offering corporate cards that can be used as a single source of credit across the entire organisation, allowing the account to be managed and controlled centrally. These accounts not only act as an alternative to cash, but actively convert credit to cash too, and as such are now being viewed as an effective cash management solution.

In its most basic form, this central corporate card can be used to cover a host of basic operational costs that are charged up front or need to be paid immediately such as airline travel, hotels, client entertainment and employee insurance. However, corporate treasurers are increasingly charging basic operational costs that are typically paid in arrears such as utility bills, couriers and office supplies, and in some cases they are negotiating payment terms with key vendors that allow them to settle bills using a company card.

Usually, treasurers deploy their corporate card account to pay for supplier invoices that are low in dollar value but payable on a regular basis. Such invoices create a pain point for finance professionals, adding to the workload of the accounts payable team in terms of reconciliation and settlements. These types of payment are also referred to as Maintenance, Repair and Ordering (MRO) invoices. Alternatively, when it comes to strategic supplier settlements or trade-related invoices, corporate treasurers tend to prefer to implement a supply chain or trade financing solution.

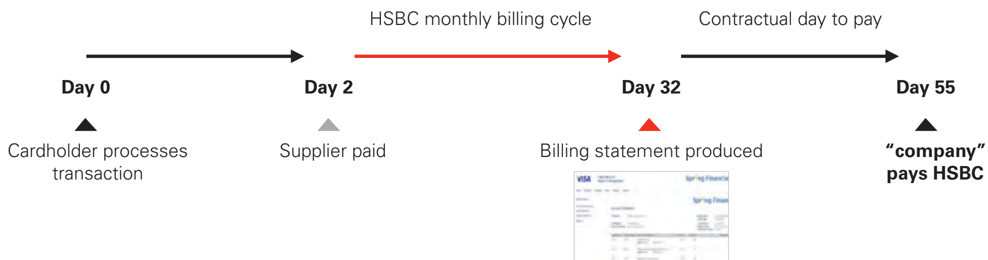
Optimising working capital and generating efficiency savings through HSBC corporate card solutions



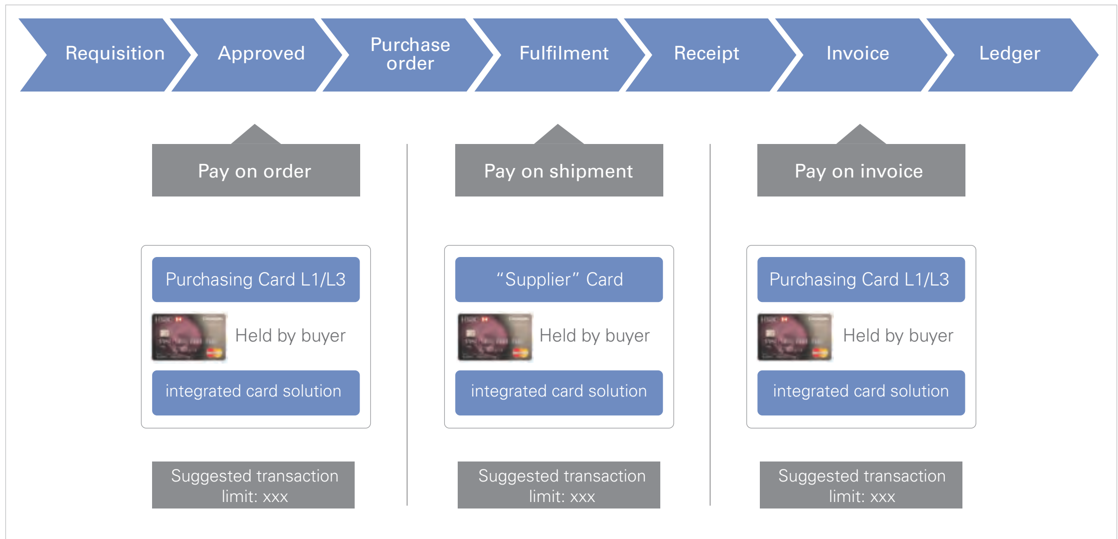
Using a corporate card account offers a host of simple yet key benefits that help free up cash and generate working capital. Perhaps most importantly, utilising a corporate card to pay a wide range of expenses affords the company up to 55 days of interest free credit (maximum DPO extension), which in turn offers greater flexibility for the organisation to manage their liabilities, saving time and effort. Unlike other means of guaranteeing payments, such as letters of credit, the funds that have been freed up can then be used to invest back in the business and drive revenue.

Maximising up to 55 days of incremental cash flow by leveraging HSBC's corporate card payment terms

Illustration of a 23 days card payment terms converting to 55 days of additional cash flow from transaction date to settlement date



Incorporating HSBC's corporate card account into the procure-to-pay process



How a corporate card account works

In today's market, progressive banks typically issue their corporate card to departments that are responsible for making payments such as accounts payable or finance. However, physical cards can also be provided to individuals if they are required. The corporate card can then be used to pay on order (e.g. catalogue or online purchases), debited by the supplier when goods are shipped (e.g. travel agency charges once tickets are issued) or used as a standard purchasing card to settle expenses upon receipt of an invoice.

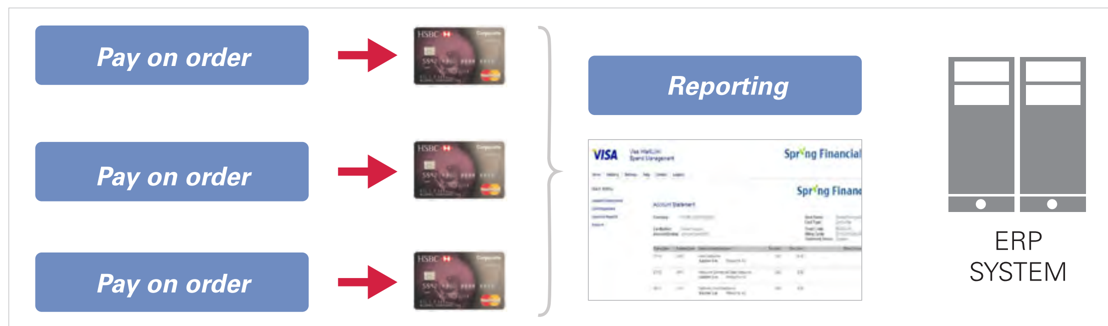
The corporate treasurer must work with the bank to address several criteria that determine how the card can be used safely. Spend category controls are identified in order to apply restrictions around how and where the card can be used. For example, some clients prefer the card to be blocked in certain categories such as casinos or retail shops etc. They may also wish to implement spend limits on certain transactions, and this can be aligned to the type of service on offer. Courier services for example are typically small amounts, while the cost of flights is higher, and so the limits should be set accordingly. Meanwhile, some organisations choose to set limits based on each individual (buyer) or their level and delegation within the organisation, and again the bank can develop a framework that works in tandem with internal protocols. By setting limits such as these, the company mitigates the risk of card misuse while ensuring the full range of benefits can be obtained.

Operational advantages

Using your corporate card to pay a wider range of expenses also introduces a host of additional operational and regulatory advantages. A corporate card enables companies to receive a single, consolidated expense report, providing absolute visibility over any expenditure charged either at an institutional or individual level. These expenses appear in real time, often hitting the company statement within 48 hours of being charged. The accounts team can then generate reports however they choose, giving them complete control of how they view the data and allowing them to streamline the reconciliation process.

Reconciliation can be an extremely time consuming process that stands in the way of the production cycle and prevents the finance team from actively supporting the business with a strategic working capital plan.

Manage payments, reporting/analytics and transaction settlements through an ERP with HSBC's end-to-end corporate card solution



By introducing a corporate card, companies can reduce countless man hours spent processing individual expense claims and save a great deal of time when it comes to reconciling payments in the ledger or Enterprise Resource Planning (ERP) system. More sophisticated banking partners offer a platform that allows raw data to be downloaded directly into the ERP or a middleware Expense Management System (EMS), which negates the need to feed invoices in manually. This enables the finance team to be more efficient and reduces the risk of human error while also improving DPO rates and increasing liquidity.

Moving to a corporate card solution on the supplier payable side also helps to reduce hard dollar costs for the company. The organisation is no longer reliant on supplier-driven credit and may therefore be able to negotiate discounts with key creditors. Similarly, they will no longer be expected to cover the transactional cost of processing cheques or making wire transfers, which can add up to substantial savings when the company is working with a large number of vendors.

A corporate card can help with compliance risk too because the solution is designed to help prevent misuse. Not only do corporate cards allow companies to implement internal spend control limits, in some cases they also come with liability waiver insurance that can protect against fraudulent transactions. And in sophisticated markets such as Singapore, data is distributed online with two-factor authentication requirements, making this solution compliant with even the most stringent of regulatory requirements.

Generating revenue from expense payables

Corporate cards are also being used as an innovative solution to generate revenue streams from commodities charged on the card. Most companies are looking to stretch each dollar they spend, not just by increasing the number of days that cash sits in their bank account but actually driving a dollar revenue back from their outgoings. This innovative concept might sound too good to be true, but in reality it is highly achievable.

Banks today offer considerable cash rebates to organisations in order to incentivise the use of corporate card accounts, especially if the spend volume across suppliers is high. Therefore, the company not only saves on transaction fees they would otherwise pay for, like an automated clearing house or GIRO facility, but actually starts earning revenue as cash rebates simply by changing the instrument of supplier payables to a corporate card. This helps the company save money and reduces overall expenses because part of the cost is offset by the cash rebate earned.

Implementing the solution

As with any internal change process, implementing a corporate card solution designed to help free up working capital needs to be carefully considered, both in terms of commitment from senior management to drive the change and the organisational resources available to manage the change process within the company. The good news is that products such as these can be deployed on a modular basis, which means that the entire organisation doesn't need to adjust overnight, rather it can choose to implement the pieces it requires the most. For example, mid-to-small sized companies may simply implement the payment aspect of the corporate card solution as an easy way to extend DPO. Alternatively, larger organisations may choose to deploy a holistic programme inclusive of an expense management platform and auto-reconciliation, as well as ERP integration of reconciled data, which is more complex because it can impact everyone from Procurement to Human Resources, Accounts Payable and IT, among others. As such, it is important to choose a banking partner who will work with you in order to ensure the change process goes smoothly and efficiently.

When making this decision, several key factors emerge. Firstly, it is essential that you choose a bank that can support your geographical footprint, because they must be able to provide a consistent platform in every market in which your company operates, both today and tomorrow. Secondly, it is advisable to choose a partner with whom you already have an established relationship and who has a solid credit rating, which can be used to support your company's growth. But perhaps most importantly, in order to take full advantage of the automated solutions available to you, it is critical that you select a bank that offers an end-to-end solution incorporating direct and indirect expense reconciliation, which will save you the trouble of working with multiple vendors.

Conclusion

At the end of the day, it is essential that corporate treasurers embrace new and innovative solutions in order to speed up trade cycles, improve working capital and free up cash flow. A corporate card account provides a simple, effective means of achieving this. Safe and secure, not only does a corporate card increase control over a whole host of expenditure; it also enables companies to pay vendors more quickly, easing the reconciliation process and reducing DPO, thereby improving production cycle efficiencies and reducing time to market. But perhaps more simply, it provides an additional source of credit for the company, which in turn frees up working capital without the need to access alternative sources of borrowing, and can even generate a dollar revenue back into the business. As such, the corporate card is an essential tool in any working capital management strategy today.

Case study

An Australian multinational company was faced with several key challenges when it came to managing their working capital and ensuring a strong cash flow. The company utilised multiple payment methods including wire transfers, cheques and employee payroll reimbursement for business expense payables, which increased administrative and processing costs. The organisation also had limited insights into its suppliers and faced issues around managing policy compliance and transparency.

In addition, the company was unable to maximise savings through the use of preferred rates, because the lack of data was hampering the ability to track out-of-policy spending. And because the company didn't have an automated reconciliation solution in place, productivity inefficiencies were rife and the finance team spent far too much time on manual expense reconciliation, which meant that accounts payable had to depend on expensive short-term borrowing to manage cash flows.

Also, the company Days Sales Outstanding (DSO) extended more than 60 days, which was leading to disputes with their customers over invoices and resulting in the organisation having to squeeze suppliers in order to manage the cost of working capital. And the ratio of bad debt with customers was putting pressure on managing inventories, ultimately leading to pressure on cash flows.

The goal was to alleviate the strain caused by these challenges and significantly reduce the indirect costs associated with managing manual transaction workflows and short-term borrowings, not just to meet but actually optimise its working capital needs. It also wanted to improve operational cash flow and ensure additional funds were reflected in the balance sheet for year-end reporting.

The multinational introduced a HSBC corporate card account with a settlement period of 25 days, providing access to interest free funds for up to 55 days. It also implemented two procurement cards to maximise the settlement period, taking advantage of VISA's Vendor Matching Service to determine which of their vendors actually accepted the card.

The results were impressive. Not only was the company able to pay a much wider range of vendors, it also significantly reduced the fees it paid for merchant services, and introduced an attractive rebate structure that was expanded to include existing corporate card travel and entertainment spend.

Taking working capital from functional to fundamental

No longer simply accountable for providing critical tools to manage cash flow and orchestrating contracts, the role of the corporate treasurer has changed significantly in recent years. Ian Fleming, Managing Director with HSBC's Working Capital Advisory Group, observes that leading corporate treasurers are seeking continuous improvement in terms of working capital management, looking for ways to weave this into the very DNA of their business.

The responsibilities of the corporate treasurer have been evolving for several years as companies began looking for better ways to centralise their cash and information. Increasing globalisation combined with recent economic events have put an even greater emphasis on the critical role the treasury department plays in providing the necessary insights to make smart, informed business decisions.

With this, the role of the treasurer has expanded beyond the basics of products and tools that focus on upgrading finance software, boosting cash flows and improving contract terms. While all are critical to a well-run treasury, today's treasurers are also tasked with improving liquidity management to preserve working capital – essentially ensuring that the right amount of cash is in the right place at the right time. This, of course, requires deeper visibility into company-wide operations, cash and exposure to financial risk.

Key insights

- The role of treasurers now extends beyond upgrading finance software, boosting cash flows and improving contract terms
- Today's treasurers are also tasked with ensuring that the right amount of cash is in the right place at the right time
- In order to achieve this, it is essential that the corporate treasurer embed a culture of good working capital practices throughout the entire organisation
- It is no longer enough to simply negotiate purchasing rates down, companies must also consider the payment terms and how that will impact the company
- An elite treasurer factors in a host of variables such as industry, margin levels, growth pace and geographical economic conditions
- Benchmarking exercises should be conducted not only against the competition, but also key buyers and suppliers
- Corporate treasurers must also investigate incentivising good working capital hygiene throughout the entire organisation, not just within the four walls of the treasury
- By incorporating a more proactive approach to working capital management, the company can cease responding to cash-induced crises and move into a state of constant improvement

Financial utopia is reached when the company is generating working capital improvement naturally, and as such this is not a one-off project that stops when the treasury reaches its goals or runs out of time. In today's fiercely competitive world, the real end-point lies when the company has the optimal mix of disciplines firmly embedded within its culture, processes and protocols, capable of adapting perpetually to a changing economic landscape or corporate events such as entering new restricted markets. However, this perpetual state of improvement remains a relatively unreached nirvana.

Introducing the new corporate treasurer

The key to transforming any treasury from a functional, reactive department to a fundamental driver of working capital lies with the role of the corporate treasurer. Basic treasurers stay in their own departments, concerning their daily activities with products and tools. They run projects to upgrade their finance software to faster, broader packages; they use finance products to boost cash flow such as invoice discounting, and they strive to improve contractual terms.

While all of these activities are valid and necessary, corporate treasurers must implement a critical change in mindset. They must adapt to the changing needs of the company and address working capital challenges up front before they even arise. In order to achieve this, the treasury department must look further than its own four walls, examining the organisation as a whole and educating each and every department on good working capital management and best practices.

It is no longer enough for the purchasing team to simply negotiate contracts down to the lowest possible rate, they must also consider the actual payment terms up front and how that will impact the company. For example, if the organisation secures a 20 per cent discount on a certain product that is generally viewed as good, however if the invoice needs to be settled within 24 hours, this places a burden on working capital. Alternatively, securing a smaller discount but with better payment terms is clearly a much more attractive proposition to the finance department. Transactions are neither good nor bad in terms of pure cash figures, however they are always tied to a timeline and the corporate treasurer must ensure all executives grasp this concept if they are to effectively manage working capital on a perpetual basis.

Similarly, there is a common misconception to suppose there is a standard method of managing working capital. Only by understanding the nature of work the business is engaged in, the margin levels, the growth levels and the economic conditions the company will experience, can a verdict be given on working capital levels. An elite treasurer will factor in all these unique variables.

Comparisons must be conducted with companies that operate under a comparable business model, because different sourcing or selling strategies may have a significant effect on working capital metrics. Today's corporate treasurer needs to be alert to point out potential glitches in benchmarking, because companies that are using financial products such as invoice discounting will have different working capital profiles. When there is clarity in benchmarking, then lessons can be drawn.

In order to effectively benchmark against the competition, companies should start by looking at the basic metrics such as days inventory outstanding, days payable outstanding, days sales outstanding and a combination of those, which is the cash conversion cycle. However, the perspective then widens, and organisations should examine the broader context such as margin. How much flexibility does the business have? It is clear that with a smaller margin, it is more important to use working capital to manage the free cash flow you are driving from the business. In which sector or geography does the company you are benchmarking against operate? These are all mitigating factors that should be examined in order to allow for more accurate and informative analysis, and businesses with a more generous cash situation may need a renewed focus on these areas. To some extent the larger the cash pile, the less inclined that company will be to have a cash culture because people stop worrying about nickels and dimes when the organisation is well capitalised.

However corporate treasurers shouldn't just compare against competitors. It can also be helpful to look at the days payable outstanding and days sales outstanding of top buyers and suppliers too. This information can be leveraged when negotiating with these partners. How do your current terms compare? Are your payment terms significantly shorter than your suppliers? Buyers hungry for liquidity may be anxious to seal quick deals, offering shorter payment terms in exchange for a reduced price. This is just one reason why the corporate treasury will find it useful to conduct a benchmarking exercise regularly, not just when warning lights start to flash.

Corporate treasurers must also investigate incentivising good working capital hygiene, because if company executives are not rewarded or evaluated on their approach to cash management and company liquidity, their focus may wander. If the incentives are wrong, the company runs the risk of remaining reactive in its approach, only improving working capital practices when a crisis occurs or when there is a top-down directive. If companies take a proactive approach to incentivise good working capital practices and fix key performance indicators, then it can move into a state of constant improvement. The treasurer must be constantly thinking of new ways to highlight the need for better working capital management.

Conclusion

Outstanding treasurers are visible outside their departments, driving improvements in every corner of the organisation. But above all, the corporate treasurer takes responsibility for ensuring the whole company's mentality, extending even beyond the firm's borders. They must examine the company's eco-system of suppliers, even to third-tier suppliers, to make sure it is optimised and stable.

This concept of a corporate treasurer is a far cry from the spreadsheet-fixated character found in the textbooks, however it does represent the reality of things to come. In order to embed working capital management into the DNA of the business, it is essential that the corporate treasurer gains the support of the entire organisation, rather than simply focusing on the treasury team itself. And while this is clearly a challenging exercise, it also offers huge rewards for anyone prepared to take it on.

Question time with Bart Ras, Global Head of Business Development, Global Trade and Receivable Finance with HSBC

- **Most corporate treasurers stay in their own department. What is wrong with that?**
  An effective corporate treasurer can be an agent of change in sales and procurement. I will go further. The treasurer must get involved in those departments to change their mindsets. At first the reaction of sales and procurement teams might be, "Are you lost?" but when the treasurer demonstrates his value, the questions will stop.

- **What can treasurers bring to sales and procurement?**
  They can bring a new perspective. In the traditional model, sales managers want to sell more, and procurement teams want to pay less. It seems contradictory. A treasurer can help both parties in the transaction see that their goals are not so mutually exclusive. For example, it may not be true that the sales teams want to sell at a higher price. They might want to sell at a larger volume. There may be an issue with payment terms. The treasurer can help both sides to negotiate.

- **Can all firms benefit?**
  I think the involvement is compulsory. In a company, both sales and procurement need to understand the needs of the finance department in order to know what the company is trying to achieve. You can't start to think about pursuing external goals without having everything aligned internally. The treasurer can ensure companies have that internal alignment.

- **What about other departments?**
  The treasurer can have a huge impact on supply chains. There is no doubt that supply chains can offer a genuine competitive advantage. Treasurers can bring their insight into issues such as just-in-time delivery. Companies ordering goods from China are now looking to have backup supply chains from Turkey or even close to home. Treasurers can help the supply chain team develop a strategy that improves customer service, optimises inventory and maximises working capital.

- **What advice do you have for treasurers?**
  You need to engage with colleagues across your company. It is no coincidence that successful companies have treasurers who have broken down the silo mentality. It really is a pre-condition for strong business performance.

Improving working capital by centralising treasury operations within the ASEAN Economic Community (AEC)

Asia's new economic powerhouse emerges as the perfect location for a central treasury function

A centralised treasury function has long been viewed as the Holy Grail by chief financial officers and treasurers alike, and few would argue against the inherent benefits this model has proven to offer. HSBC's Rohit Joshi, Head of Global Payments and Cash Management (Singapore), and Ai Chen Lim, Regional Head of Sales, Multinationals (Southeast Asia) of Global Payments and Cash Management, believe the relevance of the centralised treasury function will be enhanced thanks to the upcoming introduction of the Association of Southeast Asia Nations Economic Community (AEC).

The global financial crisis of 2008 introduced a stark new reality for many multinationals, sending companies all over the world into a tailspin as they tried to bolster sales in an effort to maintain liquidity. However following the onset of the crisis, corporates fought to reduce operational costs, identify more internal efficiencies, and strengthen risk management protocols in the face of adverse financial pressure.

Key insights

- The key benefits of a centralised treasury function have long been appreciated
- A treasury hub provides greater visibility, improved working capital and stronger risk management protocols
- Other benefits include improved internal efficiencies, streamlined operations and standardised processes
- The ASEAN Secretariat's AEC presents a considerable advantage when it comes to facilitating trade flows and the global supply chain
- Once it has been established, the AEC will sign critical partnership agreements with other economic blocs, strengthening the region
- Smart companies are looking to ASEAN as a serious contender when it comes to choosing the right location for their treasury and financial operations functions

During the fallout of the credit crisis many critical lessons were learned. As a result, numerous corporate treasurers introduced longer-term strategies that ensure a leaner and more resilient organisation today. One such measure has been the widespread adoption of the centralised treasury model.

The benefits of a centralised treasury function

In recent years, leading companies – both global and Asian – have established a regional or even global treasury model that enables them to streamline operations, whether through a hub in North America, Europe or Asia. There are several obvious benefits from this drive typically found in the transformation from a manual, and at times paper-based treasury management model, to a much more automated, technology-enabled approach. This enables companies to improve internal efficiencies, streamline operations and standardise processes and protocols.

The move to a centralised treasury model provides much greater visibility over the company's cash position than with a localised approach, which in turn can enable the corporate treasurer to free up working capital to support other areas of the business or new investments that generate revenue. Companies that have implemented a centralised model tend to be able to reduce the loans required to support daily operations thanks to an improved ability to move funds between entities in the region and indeed globally.

Typically, corporate treasurers can also reduce banking costs significantly with the introduction of a centralised treasury. By reducing the number of banking partners required to operate in multiple markets, companies can negotiate standard fees across the entire relationship, resulting in lower transaction costs and less paperwork, which in turn provides greater access to working capital across the centralised treasury operation. And while at times a local banking partner remains a necessity in certain countries for select transactions, on the whole this is a very attractive option for the treasury team.

The ability to manage risk remains one of the most critical reasons behind the decision to centralise the corporate treasury department into a regional or local hub, because any organisation that does business across multiple markets must develop a robust risk mitigation strategy that specifically targets foreign exchange and interest rate risk. This is especially true for companies that do business in Asia where there are many currencies and jurisdictions to manage, and it can be difficult to extract funds from the local markets thanks to domestic requirements or regulations. A centralised treasury function alleviates the strain considerably.

A new hub emerges

The benefits of a centralised treasury function remain well documented, and increasingly we are seeing companies establish a regional department within Asia. As the socio-economic face of the region continues to mature, a new hub in Southeast Asia is emerging as one of the world's leading powerhouses that should be strongly considered by organisations that want to efficiently manage their working capital.

The Association of Southeast Asia Nations (ASEAN) was formed back in 1967 following an agreement between the Foreign Ministers of Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then this important body has grown to represent ten dynamic nations including Brunei Darussalam, Cambodia, Laos, Myanmar and Vietnam[1]. One of ASEAN's earliest goals was to create an integrated economic region built on four pillars of integration, namely a single market and production base, a competitive economic region, equitable economic development, and integration with the global economy. Expected to be ready by December 2015[2], the key benefits of the AEC as a regional treasury hub are already starting to emerge.

1 ASEAN Secretariat website: http://www.asean.org/asean/asean-member-states
2 ASEAN Secretariat website: http://www.asean.org/news/asean-secretariat-news/item/aec-2015-remains-on-track-and-top-priority

First and foremost, the sheer economic strength of the AEC is becoming increasingly apparent. To put it in perspective, the ASEAN region plays home to more than 600 million people[3], which represents just under nine per cent of the world's total population. As an integrated bloc, the aggregate value of ASEAN's economy is the seventh largest in the world, representing a combined gross domestic product of USD 2.4 trillion[3]. Clearly this new region presents a huge opportunity for companies from all over the world in terms of business growth and access to talented professionals.

However, the AEC also presents a considerable advantage when it comes to facilitating trade flows and the global supply chain. As a region, ASEAN is the fourth largest exporter in the world, accounting for seven per cent of global exports[3], and this looks set to grow with the introduction of the AEC.

Already, in recent years several of the ASEAN nations have risen to the fore on the global manufacturing and export stage, due in large to their strategic location near the largest shipping channel in the world – the Singapore Strait – which makes the region a credible choice for global companies to produce their goods for global sales.

Vietnam has risen to the fore as a manufacturing hub for global brands, while Singapore and Malaysia are world-class producers of electronics, and Thailand is known for exporting vehicle and automotive-parts all over the world. Other markets are rich in natural resources and have therefore become leading exporters of commodities. Indonesia is one of the world's leading exporters of palm oil, coal, cocoa and tin, while the emerging market of Myanmar is expected to lead the way with oil, gas, and precious minerals[3].

Meanwhile, other markets have emerged as critical players in the service industry. The Philippines for example is renowned for the quality of their call centre operations and business process outsourcing[3] , and Singapore has emerged as one of the leading regional treasury hubs within ASEAN. These factors alone make it extremely difficult for the corporate treasurer of today to ignore the AEC.

And finally, once it is up and running, the AEC will sign critical partnership agreements with other economic blocs, laying the ground work for smooth trade, future growth and the free flow of funds throughout. According to a recent report by global management consulting firm McKinsey, these partnership agreements – in addition to the Regional Comprehensive Economic Partnership trade negotiations – could form a "Mega-trading bloc comprising more than three billion people, a combined GDP of about USD21 trillion, and some 30 percent of world trade[3]."

[3]McKinsey Understanding ASEAN, May 2014: http://www.mckinsey.com/insights/public_sector/understanding_asean_seven_things_you_need_to_know

Choosing a regional treasury hub

Several markets in ASEAN are already emerging as clear leaders when it comes to choosing where to establish a regional treasury hub. And while others are sure to rise, the key markets of Singapore, Malaysia and Thailand offer several important incentives.

Singapore plays home to one of the most stable economies in the region. The Economic Development Board (EDB) recently introduced the Finance and Treasury Centre Incentive Award, designed to encourage multinational companies to establish treasury hubs within its small borders. The benefits of this include help from the EDB in arranging credit facilities with funds obtained from financial institutions in Singapore or from surpluses of network companies; corporate financial advisory services, and the provision of guarantees, performance bonds, standby letters of credit and services relating to remittances to approved parties. Income received from any activities, in which the EDB has provided qualifying services, is subject to a reduced tax rate of 10 per cent[4].

Malaysia also offers tax incentives for companies that set up their regional treasury hub in the market. The government offers a 70 per cent exemption on income received from providing qualifying services, meaning that only the balance is subjected to 25 per cent corporate tax rate, which effectively translates to a rate of 7.5 per cent[5]. However Malaysia has recently introduced an even more attractive incentive, and eligible corporates can enjoy zero per cent tax rates if they house at least three qualifying services within their hub[6].

Also following suit, Thailand aims to attract multinationals to its shores and establish international trading centres with tax incentives and a range of benefits including management, technical and support services within the market. Qualified companies that establish international headquarters in Thailand will be exempt from corporate income tax on income received from overseas enterprises or international transactions, among other tax breaks[7].

[4] Singapore Economic Development Board Finance and Treasury Centre Incentive Award brochure: https://www.edb.gov.sg/content/dam/edb/en/resources/pdfs/financing-and-incentives/Finance%20and%20Treasury%20Centre%20%28FTC%29%20Award%20Brochure.pdf
[5] Invest KL Malaysia: http://www.investkl.gov.my/v1/Business_Hub-@-Finance_Activities-;_Regional_Treasury_Management_Centre.aspx
[6] Invest KL Malaysia: http://www.investkl.gov.my/Invest_In_KL-@-The_Optimal_Principal_Hub_for_Multinational_Companies_in_Asia.aspx
[7] The Nation, 13 April 2015: http://www.nationmultimedia.com/business/New-tax-incentives-for-international-headquarters--30254167.html

Conclusion

The ASEAN bloc is emerging as a veritable powerhouse that will rival its European counterpart in terms of size and economic strength in the coming years. It is a critical market in the strategic direction of any multinational, not only in terms of the buying power of its residents, but also in terms of production and manufacturing thanks to readily available low cost skilled labour, an abundance of natural resources and an increasing focus from the AEC in terms of economic integration. As such, the AEC is fast emerging as an obvious choice for a regional treasury hub, and smart companies are increasingly exploring its borders as a viable option from which to do business.

About the ASEAN Economic Community
Back in 2007, the Association of Southeast Asia Nations (ASEAN) committed to creating an integrated economic region by the end of 2015. Known as the ASEAN Economic Community (AEC), this body aims to create a single market that helps realise the region's potential to emerge as one of the largest economies in the world. The AEC mandate can be characterised by four clear pillars[8]:

Creating a single market and production base
The bloc aims to encourage the free flow of goods, services, investment capital and skilled labour throughout ASEAN, and as such they have identified 12 priority sectors on which to focus integration efforts, including transport, electronics, healthcare, textiles and tourism.

Increasing competitiveness
The AEC aims to harmonise policies throughout member countries on competition, consumer protection, infrastructure, intellectual property, taxation and e-commerce.

Promoting equitable economic development
By supporting the growth of small-to-medium sized enterprises and improving economic integration throughout the bloc, the AEC plans to narrow income inequalities between ASEAN members.

Further integrating ASEAN with the global economy
The AEC plans to strengthen and extend trade and investment relations between ASEAN and the rest of the world by adopting a coherent approach to external relations and improving the region's participation in global supply networks.

With this in mind, the secretariat developed a strategic blueprint designed to help them achieve their goals by December 2015. Progress to date has been solid. All measures that target the free flow of capital and skilled labour have been implemented, and much progress has been made in reducing tariffs and encouraging free trade through ASEAN. There have however been some delays in terms of encouraging the free flow of goods.

A strong foundation has been laid in terms of harmonising competition policy throughout ASEAN. However in some domestic markets the laws are yet to be enacted, and there is still plenty of work to be done in terms of consumer protection and transport.

Perhaps the most progress has been made in terms of creating equitable economic development, in particular for small to medium-sized enterprises. Not only has ASEAN introduced its Strategic Action Plan for SME Development (2010-2015) it has also made significant strides in creating the ASEAN Business Incubator Network, which consists of 30 innovation centres. Much progress has also been made in terms of developing an ASEAN Integration Framework and Work Plan, and the ASEAN Framework for Equitable Economic Development was introduced in 2011.

External integration into the global economy is also a priority and we are already seeing promising signs of global cooperation. ASEAN+1 Free Trade Agreements with China, Japan, South Korea, Australia, New Zealand and India have all been ratified as of 2014, and the secretariat is currently working towards developing a Regional Comprehensive Economic Partnership involving ASEAN and six additional FTA partners, which should be completed in late 2015[9].

[8] ASEAN Economic Community Blueprint: http://www.asean.org/archive/5187-10.pdf
[9] Rajah & Tann Client Update February 2015 – 101 on AEC 2015: http://eoasis.rajahtann.com/eOASIS/gn/at.asp?pdf=../lu/pdf/2015-02-AEC-Primer(1).pdf&module=LU&topic=LU000901&sec=b

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