

## Global Podcast Europe – Ep. 2

# Business Beyond Covid-19: Europe Reimagines Cash Management

**Introduction:** Welcome to Business Beyond COVID-19, HSBC's podcast series about embracing business unusual through the global pandemic and beyond. We talk to industry leaders and experts to understand how they are adapting, reshaping and innovating through these extraordinary times.

A quick note that we have recorded this remotely, so apologies in advance for any sound issues. Thank you for joining us.

**Gordon Elliott:** Hello everyone and welcome. We hope you're having a great day and thank you for giving us your time today. We really hope you enjoy the discussion ahead. By way of introduction, my name is Gordon Elliott. I look after the cash management and liquidity requirements for a number of our clients operating from or in Europe.

Our aim is to share a day-to-day viewpoint on our learnings during the pandemic so far, with a particular focus on working capital and supply chains.

First up, we've got Ana Carasava. Ana is running our structured trade finance solutions for Northern, Central and Eastern Europe. Ana is responsible for structuring complex receivables, supply chain and lending solutions.

Then we have Inder. Inder manages a portfolio of European headquartered multinational clients with a global presence, primarily in the consumer, pharma and tech sector.

David Brown joins us from our corporate card product team. His key focus over the past few years has been developing successful B2B programmes, supporting our clients with more complex supply chain and working capital requirements in Europe.

And then, finally, we have Dan Callis. As a European Head of our natural resources, utilities and chemical sector, Dan leads an experienced team of sales and advisory specialists, supporting our customers' needs across our full suite of global liquidity and cash management products and solutions.

To our panel, thank you and welcome. I would like to ask a broader question to start our discussion today. Can you share your learnings and discussion points with clients during the pandemic? What working capital and supply chain considerations have you been helping clients with to date? And if I open the question with David please?

**David Brown:** Thanks, Gordon. Yeah, I think in the cards B2B space, we've seen a marked difference between the priorities of consumers and their suppliers. On one side, you've got people who are trying to protect their working capital and trying to pay it as late as possible, where on the other side you've got people chasing because they want the money as soon as possible to support their cash flow. And what we've seen is that it has opened the dialog between buyers on one side and suppliers on the other, with the drive being to strike bargains on the most efficient way to accelerate the payments there through the value chain.

**Gordon Elliott:** Thanks, David, for that opening insight. Inder, from someone who is working with traditional trade finance instruments, are you seeing similar trends in your discussions?

**Inderjit Singh:** Indeed Gordon, yes. We've been having discussions with companies on several fronts during the pandemic, mostly businesses managing their own working capital requirement, businesses wishing to strengthen their supply chains. We have also been discussing distributors and customer risk in times of slower sales and longer collection periods. In supply chains specifically, we have seen businesses critically evaluating their supply base. For suppliers that are important, we see businesses actively looking to assist them with working capital.

On the sales side, we see businesses forced to grant longer payment terms to distributors and customers. Here we have been having discussions with businesses who are looking to factor their receivables so they can receive payment on time but at the same time provide support to distributors and customers and also manage non-payment risk, which has obviously increased with time.

**Gordon Elliott:** Thanks, Inder. Dan, within the cash management field do you see or are your conversations showing that this is the same story?

**Dan Callis:** Yes Gordon, I think both David and Inder have made some very valid points. I think one lesson that many of our clients have learned is the importance, actually, of rethinking their contingency scenarios.

Actually, not many of those clients foresaw that a very significant number of their finance and treasury teams would be needing to work from home for more than four months or even potentially longer. And while this may sound trivial, we actually spent a lot of time initially helping more than 70,000 of our customers to convert from their old physical security banking tokens to mobile, what we call soft tokens, since many of those physical devices were actually locked away in inaccessible office buildings.

**Gordon Elliott:** Thanks, Dan. And, Inder, from a trade finance viewpoint, it's been an industry that's been famous for being paper heavy. Are you also seeing an acceleration of the need to automate and digitise within trade?

**Inderjit Singh:** Thanks Gordon, we are indeed. Trade finance has been on a digitalisation trajectory for the past almost 5 to 10 years. The objective has always been to enable financing quicker in a supply chain and financing deeper into a supply chain.

Let me explain. In letters of credit, LC, today settlement can take anywhere from 7 to 10 days with physical documents moving around the world. We have tested extensively over the last few years and see that blockchain technology can do the same in a matter of hours. This means lower risk, since there is real-time information on the counter parties, as well as enormous working capital benefits as we remove 7 to 10 days of leg time.

HSBC has been one of the founding members of Voltron, the consortium that was established to test blockchain technology in trade settlement, particularly LC.

If we look at supply chain financing in its traditional sense today, this is pretty much working with a business to provide early payment to their immediate suppliers at competitive costs, usually cheaper than what the supplier would be able to receive on their own. But what about supplier's supplier and so on up the supply chain? What we are doing now is looking at blockchain technology so that suppliers further upstream in a company's supply chain can also have the benefit of enjoying competitive financing so that this can help the entire chain and not just the front end of it. So, that's definitely something exciting that the industry is moving towards.

**Gordon Elliott:** Absolutely. Thanks, Inder. It will be interesting to see the uptake and I'm particularly interested to see the uptake in blockchain.

Ana if you could share your views?

**Anna Carasava:** Sure, thank you Gordon. So, this is quite a long-standing trend that we have seen and for some time we have seen our multinational clients moving part of their production capacity from China to South East Asia or other locations.

I think the pandemic seems set, not only to fast forward – to expedite this trend – but also to prompt many companies into undertaking reviews of their supply chain vulnerabilities, likely going to give some consideration, some attention, to reshoring or nearshoring and that simply means the movement of a company's offshore production to a proximal country, such as Mexico for the United States or Eastern European countries for the European Union.

So, we can say that while we see the potential for reshoring or nearshoring for our clients, we also need to consider that the costs and logistical challenges associated with a shift may be prohibitive for some firms, and we also have to keep in mind that for some companies, manufacturing companies, and at least until the circular economy is embedded, global supply chains simply remain a must.

So, to conclude on this very big topic, Gordon, I think it is more about right shoring than reshoring and it is ensuring, through costs analysis, of course, that manufacturing assets are in exactly the right place and, where possible, supply chains are diversified across companies and across geographies.

**Gordon Elliott:** I'd like to ask the panel their views on sustainability in the supply chain. What impact do we think it will have on our clients' working capital?

**Anna Carasava:** Yeah, I'm happy to talk about sustainability because this is a big topic and, yes, the pandemic highlighted the independences between people and planet and the need for a more balanced carbon footprint, isn't it?

More and more clients are starting to see sustainability as core to their success and some will try to adapt their business in transitioning from current models, while some new sectors, some new companies will emerge and this is something we are already seeing. We see clean energy companies, economies, future of mobility, smart cities, hydrogenous low-carbon fuel and our engagement as a bank will be to support this next generation of companies.

We are definitely expecting the biggest changes and bigger strengths to happen in supply chains. A sustainable supply chain strategy is one that takes economic, environmental and social sectors into account in all

procurement decisions. And evidence suggest that businesses following this approach are likely to weather the storm of COVID-19 better than their competitors.

So, building sustainability into your supply chain also improves resilience to other risks.

**Gordon Elliott:** Ana, thanks for that detailed overview there from your experiences.

I'd like to ask our panel, again, their experiences of what they've seen in their discussions. What do you believe treasurers need to be considering right now and what's the kind of market view from that? Dan, I think we'll start with you on that one, thank you.

**Dan Callis:** Certainly, Gordon. I think we all have to be mindful that the challenges from COVID are far from over, unfortunately. So, I think we're not out of the woods just yet and the treasurers that I'm speaking to are certainly hoping for the best but continuing to plan for the worst and I think that's really important. Then I think this could also create situations where many companies are continuing to hold very long cash positions that they want to keep very liquid. So, with the global interest rates expected to remain at all-time lows, for what could actually be years to come now, the focus at this stage should be on preservation of capital through counter-party risk assessment and managements.

So, my recommendation is certainly to keep the dialog with your relationship team open and continue to tell us how we can help you to support your business.

**Gordon Elliott:** Thanks for that Dan. I'll move on to the next question. Are you seeing COVID as a hurdle or accelerator to moving forward with organisations' sustainability agenda?

**Anna Carasava:** Yeah, thank you. We are seeing COVID as an accelerator and our clients are seeing COVID as an accelerator. So, two trends that actually are quite important are the fact that while emissions have fallen around the world, due to the lock down, isn't it, investors seem to be still very keen to hold conversations with companies on decarbonisation, and they still want to see companies having a long-term plan beyond any COVID-triggered temporary reduction. And another trend which is seen is the social trends, so the disruptions and potential for disruptions and delay are actually born of employer-controlled working and living conditions and this contributed to the spread of the virus.

**Gordon Elliott:**

Thanks Ana, that's a fascinating insight there. Thank you all for your participation this morning, your time and thank you to our panel for sharing their experiences, too. We hope that you've found the discussion of some value to you, it's certainly a large topic with many points to cover. Stay safe, thank you again and have a great day.

**Conclusion:**

Thank you for listening to Business Beyond COVID-19: Embracing business unusual through the global pandemic and beyond. We hope you have found the conversation useful and informative. If you'd like to follow on with anything you've heard today, please visit [business.hsbc.com](https://business.hsbc.com) or contact your Relationship Manager.