Santander Commercial Banking

April 2018

The Future In Motion: A Conversation with Ken Deveaux

Ken Deveaux *Managing Director, Head of Transaction Banking*
kenneth.deveaux@santander.us

Treasury departments in businesses today define what it is to be caught in a balancing act. On the one hand, there are the challenges of 2017—a tightrope walk through areas like new regulatory compliance and interest rate hike speculation. While on the other hand, there's also the day-to-day spin of a plateful of issues: the demand to be more efficient; the requirement to streamline processes; the need to explore and implement the latest technology solutions. Ken Deveaux, Managing Director, Head of Transaction Banking at Santander Bank, shares his approach to how to optimize working capital now—and how you can strategically take on whatever enters the ring tomorrow.

Let's start at the top. Can you speak to some best practices you recommend to clients when it comes to managing working capital and liquidity during these rapidly changing times?

The first I'd put on the table is a new emphasis on forecasting. It's getting a lot of press, and the Association for Financial Professionals (AFP) even gave its annual award to the auto financing division of a major car manufacturer for its approach to forecasting. And there's good reason to focus on it as economic conditions change. In the past, the interest rate environment was such that your forecasting models might not make much of a difference because the rates were so slim across the board. But as that changes, there are opportunities to drive performance improvement in working capital by doing better forecasting.

The tools are better. The capabilities are better. And a couple of things to note: First, the usage of tools that approach artificial intelligence should be encouraged so models can better interpret a company's data and provide recommendations. Second, forecasting is getting more sophisticated in its data collection. In the past, many models were simplistic since it was so manually intensive to pull in all the needed data.

> **There are opportunities to drive performance improvement in working capital by doing better forecasting.**

Now, more companies are investing in automation that can pull information about their company as well as the current market—like prospective rates and other economic factors—to dynamically adjust their models. That, in combination with the changing rate environment, creates a situation where the stakes are higher. Generally, the better the forecasting model, the better the return.

Next in play is the change in the interest rate environment as rates start to increase. It had been the case in the past where it wasn't worth it for treasurers to spend time micro-managing different investment alternatives because the yields weren't that different. Going forward, I think there will be more focus on yield and looking at different short-term alternatives for excess cash. Balancing a cash portfolio—informed by the modeling I talked about—to include cash strategies like laddering, tiering, and in some cases, pooling, can be more impactful.

Another element? Optimizing working capital through payment efficiencies accelerated by technology. We've seen some early-stage usage of same-day ACH, but we expect it to take off even more. What we've seen in the first few months of origination is people using it defensively. Occasionally, we see people using it opportunistically, replacing wires or other funding mechanisms required for same-day payment. But I think as it matures in the market, you'll see more aggressive movement away from wires and into ACH. And that will go hand in hand with the continued migration from paper checks to electronic payments.

Speaking of using payments technology like ACH, can you tell us where else you're seeing tech play a growing role when it comes to driving more capital efficiencies?

I believe we'll continue to see more and more invoice automation. It's a place where banks have not played that central a role. But I think a tying of payment flows to invoice processing—from procurement through payments and settlement—will be critical to create more efficient payment flows and working capital flows.

The technology is more prevalent and secure today than it was a few years ago. Before, much of the automation was in large companies at the high end of the market. As the technology matures, the price point is coming down, and you're seeing a lot of companies catering to smaller and mid-market type businesses to help automate invoice processing. And that brings side benefits. Once things like ordering information, repurchase orders, invoicing and payment information flow more seamlessly between buyers and sellers, it creates other opportunities around financing those flows. Therefore, we're seeing more companies take advantage of tech companies that specialize in invoice automation and working capital opportunities like dynamic discounting and early payment discounting.

Let's talk about the global side of things. What are your thoughts on what multinational companies should do with excess cash? How do they optimize their international liquidity?

It's a situation with variations around the globe. New, stricter banking regulations across different markets are impacting the banks' appetite for corporate cash that's not linked to operational deposits. This is affecting how banks remunerate excess cash in general and particularly in regional cash pools in certain markets like the Eurozone, where excess centralized cash isn't receiving any interest in most cases right now. That's creating a strong incentive for people to keep that cash—becoming more of a liability than an asset.

There aren't a lot of alternatives. Repatriating cash that's trapped abroad has tax implications that get lots of media coverage and is subject to different policy debates in the U.S. Now, corporates are considering placing their liquidity with smaller but well-rated financial institutions that are willing to pay for those deposits because they have more need for them. But in other cases, keeping liquidity at a country level with the operational banks may end up being more effective than the transactional services themselves.

Another issue with global businesses is the centralization of cash management activities. How should a company look at how they work with different banks?

There are efficiencies to be gained when companies deploy local services in each country as opposed to working strictly with global payment operations. As an example, a company launches operations in Uruguay and needs to pay suppliers locally. On the one hand, they could send wire transfers through SWIFT to get suppliers paid, maybe out of a central treasury. Alternatively, from the cash they're collecting in the Uruguay operations, they could be making payments to suppliers in local currency using a local payment scheme. That can be a lot more effective. It can be more work to set up, but depending on the banking partner, it can be facilitated.

Companies are working more with sophisticated centralized workstations that can help not only manage what's happening within each country, but also the cash pools between them… and that brings us back to forecasting models. They're using those more sophisticated models—again, subject to the regulations in place—to optimize their position in the use of cash across their franchise. In places like Latin America, some of that cash pooling isn't available. But it's all the more reason to have a sophisticated forecasting model in place to optimize those regulations—and move funds when the time is appropriate.

In the face of change, balancing working capital means keeping an eye on the future—and on the now. As you look to what lies ahead, it's beneficial to stay grounded in the tools and partnerships available today to help you achieve the efficiencies you want, whether it's tech solutions innovative enough to refine your projections, payments or invoice processing, or local services in a foreign country that allow you to smartly manage cash flow abroad.

Santander

Santander Bank, N.A. is a Member FDIC and wholly owned subsidiary of Banco Santander, S.A. ©2018 Santander Bank, N.A. All rights reserved. Santander, Santander Bank and the Flame Logo are trademarks of Banco Santander, S.A. or its subsidiaries in the United States or other countries. All other trademarks are the property of their respective owners.

This information has been provided by Santander Bank, N.A. for general information purposes. Statements contained herein do not constitute endorsements or guaranties of information provided by the Institutions referred to herein, the Trade Portal or Trade Club. Nothing contained herein creates any client, advisory, fiduciary or professional relationship between you and Santander Bank, N.A. Neither Santander Bank, N.A. nor any affiliate, in connection with the information herein, is engaged in rendering auditing, accounting, tax, legal, advisory, consulting or any other professional service or advice to you. Finally, the information contained herein should not be considered a substitute for your independent investigation and your sound technical business judgment after consulting with your own professional advisors.Santander, Santander Bank and the Flame Logo are trademarks of Banco Santander, S.A. or its subsidiaries in the United States or other countries. All other trademarks are the property of their respective owners.