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## The Role of Treasury Risk Management in BRIC

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# Agenda

- **BRIC by numbers**
- **What is BRIC made of**
- **What can make BRICs fall- The inherent threats**
- **Global Slowdown- What it means for BRIC**
- **Brazil**
  - The banking landscape
  - Treasury Management in Brazil
- **Russia**
  - The banking landscape
  - Treasury Management in Russia
- **India**
  - The banking landscape
  - Treasury Management in India
- **China**
  - The banking landscape
  - Treasury Management in China
- **What Next**
- **Q&A**

# BRIC by Numbers – How they stack up

Categories	 <b>Brazil</b>	 <b>Russia</b>	 <b>India</b>	 <b>China</b>
<b>Area</b>	5th	<b>1st</b>	7th	3rd
<b>Population</b>	5th	9th	2nd	<b>1st</b>
<b>GDP (nominal)</b>	10th	8th	12th	<b>3rd</b>
<b>GDP (PPP)</b>	9th	6th	4th	<b>2nd</b>
<b>Exports</b>	21st	11th	23rd	<b>2nd</b>
<b>Imports</b>	27th	17th	16th	<b>3rd</b>
<b>Current account balance</b>	47th	5th	169th	<b>1st</b>
<b>Received FDI</b>	16th	12th	29th	<b>5th</b>
<b>Foreign exchange reserves</b>	7th	3rd	4th	<b>1st</b>
<b>External debt</b>	24th	20th	<b>27th</b>	19th
<b>Public debt</b>	47th	<b>117th</b>	29th	98th
<b>Electricity consumption</b>	10th	3rd	7th	<b>2nd</b>
<b>Number of mobile phones</b>	5th	4th	2nd	<b>1st</b>
<b>Number of internet users</b>	5th	11th	4th	<b>1st</b>

# What is BRIC made of..



## BRICs encompass

- 25% of world's land mass,
- 40% of world's Population ~ 2.84 Billion
- \$15 Trillion of combined GDP, 15% of world's GDP by some est.
- 40% of gold and hard currency reserves
- Averaging 7% of annual growth in last 5 years- 10.4% for China, 7.9% for India, 6.9% for Russia and 3.7% for Brazil
- In last 5 years the number of households having annual disposable income of over \$ 10,000 has increased from 20.6 MM to 90.1MM

## The Growth engine

- While **B** and **R** are dominant suppliers of Raw materials, **I** and **C** are dominant supplier of Services and manufactured goods respectively.
- Large Geographical and youth population size
- Steadily growing household income is driving domestic consumption
- Accumulated High FX reserves
- Increasing productivity with increasing level of education

# What can make BRICs fall....The inherent threats to growth

- High dependence on commodities. Commodities constitute for half of the exports
- High public sector debt: 50% of GDP
- Demographics: Uneven distribution of Wealth
- Inadequate supply of infrastructure
- Complicated tax regulations and restrictive labour regulations



- High reliance on Hydrocarbon- A major contributor to GDP ( over 30%)
- High inflation ~12%
- Falling working population, about 0.8% annually
- Limited SME sector
- Terrorism threats and tensions with Georgia
- Govt. Bureaucracy



- Demographics: Large population living below poverty line. 65% depends on agriculture
- High dependence on Services sector- 55% of GDP
- Inadequate supply of infrastructure
- Terrorism threat and tensions with Pakistan
- High Govt. Bureaucracy
- High Fiscal deficit



- Export contributes 35% of GDP making it vulnerable to global economic situation
- Exports are boosted by undervalued currency
- Government bureaucracy
- High level of capital control and regulations
- Gradual declining Working Population growth rate
- Rapid degradation of Environment
- Insecurity on land use rights lead to barrier to urban migration which could lead to possible social tensions.



# Global Slowdown- What it means for BRIC

## The Threats...

- China and Brazil see weaker demand for products from developed markets, Russia is hit by falling Oil prices ,while India suffers slowdown in Services sector which is oriented towards developed economies
- Exodus of foreign funds from BRIC stocks
- Slowing Foreign investments from developed economies
- Slower Growth: While China and India are still registering growth, in the range of 7-8%, Russia has gone into negative and Brazil near Zero
- Rising unemployment and income disparity.

## ...And the Counters

- Strong Internal Consumer demand: consumer expenditure as a share of GDP is about 35.0% in China, 48.0% in Russia, 54.1% in India and 61.0% in Brazil.
- Relatively closed economies of India and China have faired the crisis better.
- Accumulated high levels of Foreign currency reserves, though that of Russia is fast depleting
- Continued government investment in infrastructure and to increase spending
- High level of savings and low leverage of consumers
- Crisis is expected to reduce inflation making it easier for governments to ease interest rates.
- Foreign inflows to India and China picking up in last 6-7 months , comparable to inflows in 2007



# The Banking Landscape- Brazil



- Brazil has the most developed banking framework amongst BRICs
- One of the most regulated of all the LATAM countries
- Well developed electronic payment systems , geared to capture information flow as well- *“Boleto”*
- Near absence of Paper payments
- FX and monetary controls. Domestic payments can not be done in Foreign currency
- Exporter’s allowed to keep overseas FCY accounts
- Documentary proof for Foreign currency transactions needed
- Cross Border pooling not possible
- Lending from Non resident is restricted on duration and purpose. Short term loans are restricted and regulated
- Only Local signers allowed to sign for documents

# Treasury management in Brazil



## Challenges

## Solutions

Liquidity management



Domestic cash pooling, but within same bank. Cross border pooling and notional pooling not possible.

Managing documentation for regular cross border trade transactions



Online submission of Trade documentation processing clubbed with online payment systems

Efficient collection solution with accurate and timely flow of information



*Boletos* for robust flow of information, and wire transfers for faster collections.

Signer to be a local resident or a permanent visa holder



Online payment systems through electronic banking platforms.

# Case Study: Managing Trade documentation



A leading manufacturer with large volumes of imports resulting in extensive paper handling and payment delays.

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## Needs

- Executing import payment online and integrating with ERP
  - Reduce documentation requirements and ensure timely payment to suppliers
  - Manage signatory challenges for high value payments
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## Challenges

- Extremely high volumes with each payment having multiple invoices
  - Industry works on JIT principles and the slightest delay in supply of materials can shut down production lines
  - As per signer rules, senior signatories are located overseas.
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## Solutions

- Document warehousing activity outsourced along with payment tracking
  - All import payments effected using Online Banking platform to reduce paper handling
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## Results

- ✓ Responsibility of keeping track of due date of payments shifts from Company to Bank
- ✓ Cross border payments can also be integrated with ERPs
- ✓ Manually filling and signing of documents made redundant as these are now submitted electronically.
- ✓ Even signers not located in country can authorise this online

# Intel Corporation - Brazil



## Intel Corporation in Brazil

- Sales and Marketing
- ~ 150 employees
- Payables and documentation processed by SSC
- Tax and few manual checks processed locally
- Local resident signers on the manual payments

# The Banking Landscape- Russia



- Largest country in the world - 11 time zones
- Fragmented banking systems, over 1000 banks, 2 of the largest banks are Govt owned.
- Most payments are done electronic but could take over 2 days to settle due to time zone differences.
- RTGS is new and still in its early days
- Strong FX controls . All FX transaction to be supported by documentation proving the genuineness and reported to Central Bank of Russia
- Notional Pooling allowed, Cross Border pooling not possible
- Underdeveloped Local Debt market
- FX market liquid for up to 1year hedges, no commodities hedging.
- Thin capitalization rules apply

# Treasury Management in Russia



## Challenges

Liquidity management



Documentation for cross border transactions



Flow of Information along with flow of funds for reconciliation



Investments



## Solutions

Notional pool as well cash pooling possible. Though notional is more common

Online document submission and Trade documentation outsourcing solutions

Using virtual account/shadow account structures to capture remitter information.

Fixed short term deposits in RUB and major foreign currencies. Money market funds not widely available.

# Intel Corporation - Russia



## Intel Corporation in Russia

- R&D, Sales and Marketing office
- ~1200 employees
- On line documentation for payments.
- AML paperwork negotiation
- Offshore FX

# The Banking Landscape- India



- 1200 clearing zones
- Most payments are paper based
- A Fast spreading Electronics clearing systems ( RTGS/NEFT/ECS)
- Strong FX controls : Convertible on Current Account but Partially on Capital Account
- Limited means of repatriation of surplus
- All FX transaction to be supported by documentation. Netting is allowed only with approval from RBI
- Only exporter allowed to hold FCY in India
- Notional Pooling and Cross Border pooling not allowed
- Foreign currency Debt permitted only for specific purposes under specific conditions
- Liquid but underdeveloped Local Debt market

# Treasury Management in India



## Challenges

## Solutions

Cash Management with Robust information



EFT collection solutions for Day 0 credit Clubbed with virtual accounts for accurate information

Manage Paper based payments



Various outsourcing solutions like cheque printing and online payments

Liquidity management



Only domestic pooling allowed. But certain tax considerations to be paid attention to. Multiple investment options like MF( active/passive), Money market funds, sweep-in bank deposits, bank FDs

Cheaper Financing Options ?



External Commercial Borrowing for Capital Expense  
Trade Financing ( Import or export) for Working Capital financing

Onshore Surplus: Trapped Cash



Dividend payments and royalty payments with WHT.  
Buyback of share capital

# Case Study: Managing Collections- E-collect



One of the largest Mobile Service provider in India with 1500 dealers across 22 sectors and 50MM subscribers.

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## Needs

- Improving working capital cycle
- Cheaper collection solutions which is standardized across sectors
- Solution to be subscriber- friendly and market differentiator.

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## Challenges

- Large collection locations and customer base
- Accurate remitter information to enable automated reconciliation
- Each sector operates as independent unit with different collection solutions

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## Solutions

- Using NEFT /RTGS collection channel to collect funds.
- Assignment of unique 4 digit prefix to each sales activity, such as airtime sales
- Customized validation process at each sector to expedite internal bill processing and reconciliation
- Common delivery format to standardize processes across sectors and share best practices

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## Results

- ✓ Significant cost savings due to electronic collection. Scalable collection model at no additional cost.
- ✓ Improved working capital cycle in reduction in DSOs. 70% collection moved to electronic as compared to 12% before.
- ✓ Improved reconciliation and almost real-time intraday customized MIS
- ✓ Convenience to end customers by offering online payment solution.
- ✓ Faster release of talk time which in turn is significant sales enabler

# Intel Corporation - India



## Intel Corporation in India

- R&D
- ~ 2400 employees
- Payment processed by SSC and local AP
- Efficiencies gained by Legal entity restructuring

# The Banking Landscape- China



- The Big 4 State Owned Commercial Banks (SOCB) have 53% shared of market
- Multiple clearing zones. Only intra zone clearing possible.
- Account structure is defined by regulations- Basic, Capital, General. Each of these can be used for designated purposes only.
- Highly regulated banking environment.
- Foreign currency transactions are highly controlled. “Entrust” loans subject to SAFE approvals.
- Limited investment alternatives. Regulated Interest rates.
- Domestic cash pooling allowed. Notional and cross border pooling not possible.
- A new but successful inter city electronic payment system HVPS and BEPS along with intra city Giro payments.
- Decentralized tax system.

# Treasury Management in China



## Challenges

## Solutions

Only intra-city clearing possible. Capturing remitter information for reconciliation.



HVPS, BEPS and GIRO to replace paper based collection/payments. Virtual accounts to capture remitter information

Supporting supplier's through cheaper funding and improving working capital cycle



Supplier financing programme via corporate accepted draft through online platforms to bring efficiencies

Managing documentation for regular cross border trade transactions



Outsourcing solution like Trade documentation processing clubbed with online payment systems

Liquidity management-multiple legal entities and multiple accounts per entity



Physical cash pooling with auto-sweep to higher yield deposit. Entrust Loan structures. Notional and Cross border pooling not possible.

Onshore Surplus: Trapped cash



Dividend payments and royalty payments with WHT Management Services and Cross Border Entrust loans subject to SAFE approvals

# Case Study: Supporting suppliers



Supplier Finance Programme for a fast moving consumer goods company

## Needs

- Improve working capital efficiency by extending payable tenor without adverse impact to suppliers.
- Support suppliers to obtain cheaper financing .

## Challenges

- Negotiate with multiple suppliers to extend payable terms.
- Complicated processing requirements due to large volumes

## Solutions

- Supply Financing solution through Corporate accepted draft
- Suppliers financing at cheaper cost than market

Assumptions:

Transaction amount: RMB 1 MM  
Supplier Finance Rate: 7%  
Discount rate under the program: 4.5%

Tenor	Rate	Interest amount	
90	7%	17,500	} 14% savings
120	4.5%	15,000	

## Results

- ✓ Extension of payable terms for corporate, eg. 90 – 120 days
- ✓ Reduction in Supplier financing rate in the range of 250 bps
- ✓ Despite increase in payment terms, supplier is able to reduce its financing cost by 14%
- ✓ Direct Commercial benefit – helps corporate to negotiate finer procurement price
- ✓ Improved supplier relations

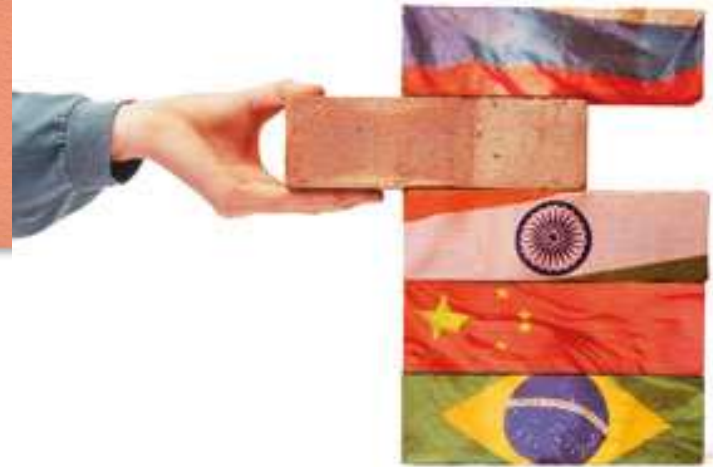
# Intel Corporation - China



## Intel Corporation in China

- Manufacturing, R&D, Sales and Marketing
- ~ 6500 employees
- Payment processed locally and by SSC.
- Obtained permission from SAFE to enable inter-company USD lending between China entities.
- Efficiencies gained by Legal entity restructuring.

# Watch Out For...



## INDONESIA

19<sup>th</sup> in nominal GDP  
4th most populous country  
GDP growth about 6 % in last 3 years,  
4.4% in Q1 2009

**BRIC**



## Mexico

Fairly open economy already  
13<sup>th</sup> in nominal GDP  
Averaging 4% GDP growth

## Korea (South)

14<sup>th</sup> in nominal GDP  
Considered developed economy  
Approx GDP growth of 5%

# Treasury Risk Management in BRIC

## Questions & Answers