

# A Great Connection

## Telco Treasuries Set a Shining Digital Example

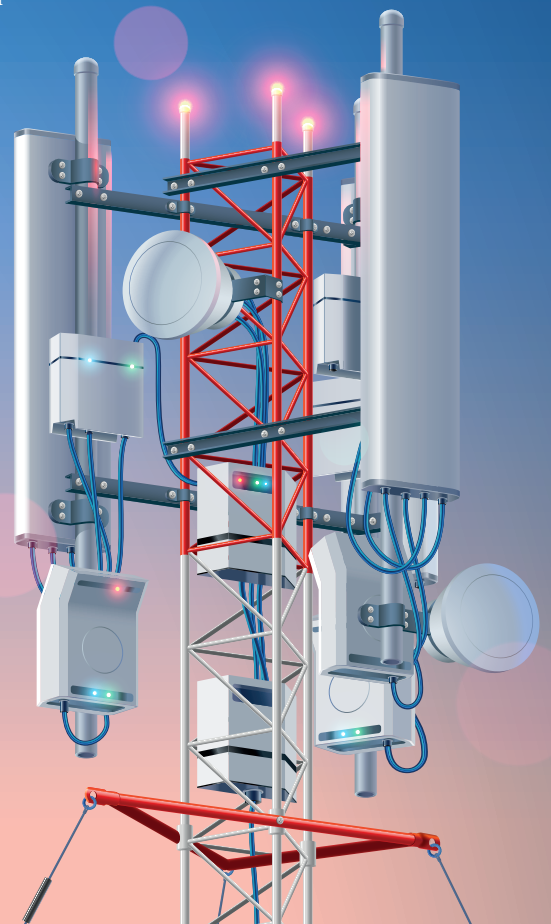
By Ben Poole, Columnist

**T**he telecommunications sector has played an instrumental role in supporting organisations with the transformational shift to remote working. It has also helped ensure continued access to digital financial services to people via traditional banking and alternative payment methods during the pandemic. Telco treasurers operate in a highly acquisitive sector that requires regular financing to support investments in the latest communications technology. As a result, high levels of efficiency are critical for the telco treasurer, and there are many lessons that treasury teams in other sectors may find useful.

Telecommunications companies, known as telcos, played a critical role during the height of the pandemic in enabling business to continue despite a global lockdown. Homeworkers leveraged their personal telco services more than ever to access business-critical systems, while remote learning became the norm for schoolchildren and university students. As countries prepare to return to some level of 'normality', flexible working will still be an option for many, which means that telcos

will need to maintain and enhance the infrastructure to support this societal shift.

James Lee, Technology and Communications Sector Sales Head for EMEA, Treasury and Trade Solutions, Citi, comments: "Clearly the pandemic



has accelerated the need for telcos to invest in and create innovative offerings around 5G". The investment here is by no means insignificant. Estimates from the US suggest that installing and rolling out a 5G non-standalone Evolved Packet Core for up to 50,000 subscribers costs telcos anywhere from \$250,000 to \$1.2m<sup>1</sup>.

Remote working has also acted as a driver of 'cloudification', or adopting cloud technology, for telcos - and indeed companies across almost all industry sectors. By leveraging the cloud, companies can store data and run systems with only a light on-premise technology. Permissioned users can then draw down data using 5G or fibre networks, removing the need to store anything locally.

The pandemic has also led to changes in the way that companies and consumers use money. "There is a move away from cheques and cash to more digitised solutions such as e-money, and telcos also have a big role to play here," Lee notes. "This is part of an ongoing shift, having kicked off with developments like Safaricom's M-Pesa in Kenya 14 years ago, and we have seen tremendous adoption of e-money solutions such as Alipay and WeChat Pay in Asia. Now, we're seeing increased interest in e-wallets from tech companies as well as telcos. They're recognising there's a value for consumers to have an e-wallet. And treasury plays a very important role in the development of these solutions."

For instance, telcos have also realised they will need to transform their earlier methods of operation. Many are moving into financial services and are applying for banking licences, particularly in Asia where the investment in infrastructure is particularly evident. Singtel, the largest telco in Singapore, won one of Singapore's first digital banking licenses which will allow it to take deposits and offer banking services

Abhishek Bhatnagar, Technology and Communications Sector Sales for Asia, Treasury and Trade Solutions, Citi, explains: "The view of telcos in Asia is that from a 5G standpoint, most of the initial gains may be coming from enterprise clients, telcos are relying heavily on that. They're investing strongly in building data centres here in Asia, and also partnering with many of the large cloud providers to overlay services on top of these

data centres. We will probably see, over the next three to five years, telcos delivering on this promise, with new business centres and new digital models coming in, meaning that telcos don't have to rely only on traditional services for revenue as they will also have these new services coming on stream." Naturally this business model change means that treasury must evolve too.

### Inside the telco treasury

The treasury functions within most telcos tend to be advanced compared with those in other sectors - which makes them an exciting industry benchmark. The highly competitive marketplace means telcos are required to make constant investments in new 5G infrastructure and licenses. As a result, telco treasurers have to be highly focused on funding and efficiency.

"Many telcos have recently been talking about finding ways to optimise their assets and manage themselves more efficiently," continues Lee. "There is a huge amount of M&A [mergers and acquisitions] in the telco space, for example. Whether it be divestments to realise value from tower assets, selling down unwanted assets, or consolidation, treasurers are involved with acquiring and consolidating in the sector. There are joint ventures too; AT&T and Discovery recently announced the combining of AT&T's WarnerMedia business with Discovery, for example."

In this extremely challenging environment, efficiency is key and telco treasuries are increasingly using data to achieve results. For example, they are examining how to improve automatic reconciliation of bank statements using the data obtained from their banks. With the largest telcos operating in 200 global markets and managing sizeable networks of banks and accounts, this brings its own complexities, but banks can help them to be more efficient.

"Most telcos will have quite advanced cloud-based treasury systems and/or ERPs [enterprise resource planning systems], which means the treasurer is trying to drive and leverage efficiencies from that, such as exploring how they can improve on automation and straight-through processes from their systems into banks and back again. For example, we have seen huge interest in using Citi's API



JAMES LEE

Technology and Communications  
Sector Sales Head for EMEA, Treasury  
and Trade Solutions, Citi

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connectivity for our clients to send and receive data in real-time,” comments Lee.

And by optimising the collections process through automation, digital sales channels, leveraging data to deliver a superior customer experience, treasury can help the business to obtain instant visibility of and gain access to essential cash flows.

“Telco treasuries are looking to be even more digital in their processes,” says Bhatnagar. “You can see this in how they enable customers to onboard digitally, and allow their businesses to collect digitally. They’re leveraging schemes such as instant payments and applications that banks are developing, such as reconciliation APIs for faster cash application. And they are comfortable looking at financing tools that utilise both artificial intelligence and machine learning that banks are putting into place.”

### Supply chain management and working capital

With a good grasp of digital tools and data, many telcos are also well positioned to not only optimise their own working capital but also to support their suppliers through supply chain finance (SCF) programmes through their banking partners.

“Corporate treasuries in multinational telcos are among the most advanced when it comes to looking at working capital,” notes Lee. “Because of the nature of the business it is very working-capital intensive. There’s huge investment on the network, huge investment on the latest smart phones, and so on. But they’ve also been using SCF for a long time. This enables them to support their suppliers by allowing them access to funds earlier than the normal payment terms would allow.”

A challenge that some telcos face is that typically they have significant debt

on balance sheets, but at the same time they also have substantial sums of cash. Being able to maximise that cash in a time of low, or even negative, rates is extremely challenging, but Lee notes that dynamic discounting could offer a solution.

“Dynamic discounting is a way for treasurers to access and support suppliers, and also utilise their cash and balance sheet to get some return,” he explains. “Clearly there are some downsides from the working capital perspective but there is

a huge upside from the perspective of the current rate environment.”

In more recent years, this kind of support has also been an increasingly important part of the environmental, social and governance (ESG).

Lee continues: “Supporting smaller suppliers, allowing them to access funds earlier and leverage a better credit rating is important. Recently, we’ve been looking at how we can, for good suppliers with strong sustainability goals, support



### TELCO TAKEAWAYS

#### Automation is no longer optional

In a world of instant collections, automated reconciliations - leveraging AI-based solutions - can help treasury to obtain instant visibility of essential cash flows and free up treasury teams to be more strategic.

#### APIs are essential for treasury efficiency

APIs enable data to be received in real time with minimal effort and the ability to seamlessly integrate systems. By leveraging APIs, treasurers can make informed on-the-spot decisions and ensure processes such as cash application process are virtually instant.

#### Supply chain finance can be accessible for all

Smaller suppliers can leverage solutions such as dynamic discounting if a traditional SCF programme is not appropriate. Buyers must become more creative in their thinking and look to embed ESG criteria into SCF solutions wherever possible.

#### Real-time treasury is not a threat

While it will take time and effort to adapt to real-time treasury, the potential benefits are significant - ranging from instant insights and access to cash to improved supplier and customer relationships, as well as competitive advantage.

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that side of the business. We can give benefits to companies that have that focus and support them at a better pricing. People care about the ESG topic, and they want to see companies taking a positive approach towards sustainability.”

Export finance is also proving popular alongside SCF to help telcos maintain the pace of technology and infrastructure development that is required in this competitive industry. “We work closely with the exporting finance agencies to deliver solutions to clients that will help finance all these technologies also,” Bhatnagar comments. “A number of large technology companies who are key suppliers to telcos have been able to do this successfully in many markets, introducing a new technology and then delivering tremendously powerful services to end customers as well as to enterprises.”

### Building for the future

As already noted, 5G is one of the biggest developments in the telco world, enabling firms in that space to not only get closer to their customer base but also expand their offerings through the technology it helps support. In the near future, this technology will likely change the face of many day-to-day activities, as well as treasury tasks.

“5G is tremendously exciting and a game-changer for industries as diverse as health care - with remote health care monitoring - through IOT use cases to online gaming, allowing real-time gaming with people all over the world,” Lee explains. “Traditionally, the majority of companies have either been B2B [business-to-business] orientated or consumer focused [direct-to-consumer (D2C)] - however we are now seeing almost all companies adopting more flexible business models requiring them to support both B2B and D2C flows. Treasurers are increasingly engaged in how they can support those additional payment and collection flows in an optimal, efficient manner.”

One solution for D2C flows is Spring by Citi. This is a payment gateway

solution designed to support acceptance of digital consumer payments. Lee explains: “As a bank, we have designed the Spring by Citi payments gateway to allow traditional card collections as well as alternative payment methods, to maximise the payment options available to consumers and minimise the chance of ‘abandoned carts.’ It’s another string to the bow to enable corporate treasurers, whether they be in the telco, tech or indeed any sector, to support the increase in D2C flows as companies pivot much more towards a D2C. 5G will be a catalyst for increased D2C flows and represents a huge opportunity for telcos to manage that flow with consumers.”

Another area where telco treasuries will continue to be inventive is around the use of application programming interface (API) software. In essence, APIs enable two separate applications to talk to one another and its take-up has been given a boost by the advent of open banking. In a world of real-time finance, APIs are critical.

“Telco treasuries are embracing APIs because they support their need for efficiency,” Lee explains. “The ability to absorb data from banks on a real-time basis, to take that in, consume it and interrogate it is crucial. Recently, a client of ours spoke about the benefits they obtain from being able to reconcile bank accounts against their accounts receivable ledger in real time. This is of huge value to them as the cash application process is more or less instant, which provides a huge boost to the business.”

The benefits of real-time banking also extend to making payments, for treasury payments, refunds or any type of payments to key suppliers.

Lee notes: “Being able to send money and data in real time to banks and leverage real-time payments is critical for cutting-edge corporates. The world is changing and customers want to consume services in real time - but business also want to collect money instantly too. The telco treasury world is one to watch for a blueprint of how real-time treasury can be put into practice.” ■



ABHISHEK BHATNAGAR

Technology and Communications Sector Sales for Asia, Treasury and Trade Solutions, Citi



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**Note**

<sup>1</sup> <https://www.lightreading.com/open-ran/heres-how-much-5g-wireless-network-really-costs/d/d-id/769114>