

The Hongkong and Shanghai Hotels, Limited

Achieving strategic cash management and greater cash efficiency in challenging times



Together we thrive



A need to change tack

Incorporated in 1866, The Hongkong and Shanghai Hotels, Limited (HSH) develops, owns and manages a group of prestigious hotels, commercial and residential properties in Asia, the United States and Europe. HSH's long-term strategic mission is to build, maintain and create high quality assets that become legacies in the future – their flagship hotel, The Peninsula Hong Kong, is a prime example.

The HSH Treasury Team supports the company, and strives for continuous improvements to achieve optimal tailor-made treasury solutions. With the centralised treasury set up in Hong Kong SAR, HSH needed to minimise bank borrowing and maximise interest income in five markets across the globe through cross-border cash concentration and a multi-currency notional pooling structure. Under the strain of market volatility caused by COVID-19, HSH has proved that evaluating liquidity, returns and risk is key to achieving optimal liquidity efficiency.

Some of the key challenges faced by HSH:

- ◆ **Multiple banking relationships:** accounts were opened with different local banks across the globe, which made it difficult to monitor and plan their cash position.
- ◆ **Decentralised cash management in local hotels:** working capital cash balances were spread across the globe.
- ◆ **Trapped cash without any Enhanced Yield:** The Peninsula had operations in a few markets in which currencies are heavily regulated, leading to surplus cash becoming trapped onshore and a portion losing out on the potential benefits of better interest rates.

Driving change: HSH's Treasury Transformation Project

Throughout 2020, the HSH Treasury Team embarked on a Treasury Transformation Project to achieve better efficiency, tighter internal controls and direct economic benefits for the company.

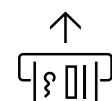
The central improvement areas of the project included:



Liquidity Management: Review of relationship banks and their debt portfolio to further improve pricing, average maturity duration, diversification of banking partners and debt rollover workload.



Reporting: Design and implement Treasury operation reports to enhance trend analysis.



System: Implement a Treasury Management System to obtain more efficiency in work flow.



Treasury Policy: Review Treasury Policy, taking into account changes in the market environment.



Strategic Cash Management: Design a notional cash pooling structure involving 5 markets to concentrate all non-trapped cash back to headquarters to improve cash liquidity control for the group.



Account Rationalisation: Review and streamline bank account structure



Cash forecasting methodology: Standardise cash forecasting methodology



- ◆ **Treasury Team of the Year (Hong Kong)**
The Hongkong and Shanghai Hotels, Limited – led by Aiden Fung, Group Treasurer
- ◆ **Best Liquidity and Investments Solution (Hong Kong)**
The Hongkong and Shanghai Hotels, Limited

Putting the Transformation Project plan into action

HSH firstly rationalised bank relationships and accounts to minimise counterparty risk and account maintenance cost. With HSBC identified as the core cash management bank, HSBC helped HSH to reduce circa 20% of unnecessary bank accounts in the group, significantly reducing their bank administration workload.

HSBC also facilitated HSH subsidiaries to open non-resident accounts in Hong Kong SAR to concentrate the funds from the local hotel operations in United States, United Kingdom, Japan and France, to minimise disruption to existing business operations. This also optimised cash efficiency and reduced operational risk, as HSH no longer needed to manually fund or defund the local accounts, whilst against-the-sun sweeping ensured same day value.

At headquarter treasury level, HSBC provided the Liquidity Management Portal¹ which provided HSH with full cash visibility and Multi-Currency Notional Pooling to draw down on HKD based on the credit balance in other currencies, reducing group borrowing cost. HSH is continuing to expand the scope of the transformation project to markets with moderate liquidity restrictions such as mainland China to further maximise cash efficiency.



Reaping the rewards

“Treasury improvements are limitless when equipped with an innovative mindset and partnering with a strong strategic cash management bank. HSH is delighted to partner with HSBC to achieve success together.”



Aiden Fung
Group Treasurer, Corporate Finance
The Hongkong and Shanghai Hotels, Limited

The benefits of the transformation are numerous, with the most significant being HSH’s cost savings and improved process efficiency: the pool structure saved HSH HKD 4 million per year and the treasury team gained 8 hours per week that was previously spent on repetitive manual procedures for cash concentration and conducting the FX swap. The notional cash pooling reporting solution also helps HSH to automate recording of sweeps and interest calculations, minimising manual tracking work within the treasury team.



¹Liquidity Management Portal (LMP) is a digital platform providing client with enhanced visibility and control of cash and liquidity structures combined with analytical charts and graphs to help to better manage and deploy liquidity, spot cash trends and assess risks. One of the key features, Cash Flow Forecasting (CFF) tool, helps clients operationally streamline forecasting complexities and increase transparency of future cash positions, ultimately simplifying the deployment of cash, and helping to achieve strategic goals. Certain features of products are currently under development in certain markets and any functionality described in this document may vary across markets and is subject to change. The deployment of the products in any market is subjected to our assessment and discretion.

Change is the only constant

HSH’s company culture enabled them to embrace change and motivated the team to explore new solutions within the cash management space.

We are in a period of significant technological change and development, impacted further by COVID-19, which will fundamentally change Corporate Treasury. Now more than ever, it’s critical for businesses to have visibility and control over cash to better decision-making, reduce financial risks and improve returns.

“With the continual evolution in the liquidity and cash management landscape, efficient working capital management often comes with challenges. HSBC Global Liquidity and Cash Management strives to design, implement and deliver prominent solutions with digital innovation such as our Liquidity Management Portal. These solutions play an important role in maintaining sustainability, driving efficiency and gaining liquidity visibility for corporate clients like HSH.”



Violet Yung
Head of Hong Kong Large Local Corporates, Sales
Global Liquidity and Cash Management
HSBC

Significant disruptions have triggered businesses to enhance their liquidity management through optimised working capital management techniques, often relying on their banking providers to facilitate their digitisation strategy and provide in-depth country sharing like local capabilities and market considerations to navigate these challenging times.

While the economic disruption caused by COVID-19 has greatly increased existing liquidity management challenges for finance functions, the right cash forecasting solution can materially address these.

HSBC continues to support clients like HSH by leveraging industry-leading technological capabilities, staying connected, thinking creatively and providing businesses with the information they need to make the right decisions.

For more information on how HSBC can help meet your needs please contact your local HSBC representative or visit gbm.hsbc.com



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