



Технологии
Доверия

Digital Ruble For Business: Panacea Or Placebo

A glance at how business processes of corporate treasuries will change with the adoption of payments using the digital ruble

Adoption of digital currencies: positive impacts

“If you cannot beat them lead them” is the phrase that everyone knows and that best describes what is happening now in the world of digital financial instruments as a whole and specifically digital currencies.

Stepping in with the digital ruble project, the Bank of Russia takes the lead from private providers of digital currencies. The population can benefit from the project in a number of ways, including increased affordability of financial services and convenience of using payment instruments.

Benefits of digital financial instrument implementation by the Bank of Russia

For the Bank of Russia



Control over the issuance of secured, stable and regulated digital currency

For the retail segment



Increased accessibility of financial services



Increased convenience of using payment instruments

For the corporate segment



What are the benefits for the business?

What will the corporate sector get in this situation? In our opinion, the benefits are immense:



the digital ruble will transform enterprise business processes involving payments, cash management, cash flow forecasting and liquidity management;



the digital ruble adoption will help to reduce costs of settlement and cash services and losses from misuse of funds;



the adoption of digital ruble based payments goes hand-in-hand with operational efficiency improvements, as it helps to reduce the time it takes to complete a number of tasks;



an additional granularity of cash flows in the form of unique numerical identifiers of each currency unit creates conditions for new, analytics-enabled financial control methods.

These quantitative and qualitative impacts incite companies to step in, win and lead the adoption of the digital ruble.

Changes that come with the digital ruble adoption

The digital ruble will be implemented using a two-tier retail model involving commercial banks and the Federal Treasury, with the latter leveraging the new instrument to control the appropriateness of budgetary payments. We believe that the instruments introduced by the Russian Treasury might be scaled for the application in the corporate sector as well. We have already seen such use cases at the intersection of the public and private sector finances:

1 The early 2000s saw the emergence of the Russian Treasury's single accounts followed by the massive adoption of cash pooling in the country in the mid-2000s that like the single accounts served to concentrate cash funds;

2 The public administration sector started to use cash expenditure requests (later – orders) as one of the controls over the intended use of funds by analogy with payment requests in the corporate sector. Such instance as a request that precedes a payment document does not exist in many foreign practices and control is exercised over accounting or payment documents.

Both in the case with the cash pool and payment controls, the crossover of instruments, approaches and procedures between the public administration and corporate sectors occurred because this made business sense as it brought qualitative and quantitative impacts.

The same is true of the digital ruble where meaningful changes will be as follows:





1. New approaches to liquidity viewing and forecasting

The presence of a digital ruble in the cash position imposes certain restrictions. First of all, settlements with certain counterparties or cash placements in deposit instruments might be impossible. As the practical application evolves, other natural restrictions are most likely to come to light.

These restrictions suggest that it is important for treasurers to “see” such funds in the cash position as a special line item for cash management purposes (for example, an organisation’s cash funds maintained in accounts of the Russian Treasury or cash held in special accounts or designated settlement accounts used for certain purposes). Apart from the cash position visibility, it is important to understand that there are other factors different from those pertaining to cash and non-cash rubles that might influence the dynamics of cash flows in a digital ruble. Therefore, it will be important to analyse such factors and come up with tools and methods that might be leveraged to forecast the digital ruble cash flows.



2. Reducing costs of settlement and cash services

It has been announced that a fee for payments between legal entities using the digital ruble platform will be RUB 15 per payment. This is much lower than fees in some banks that might come to RUB 30, 50, 70 and sometimes RUB 150–200 per payment. Thus, it will be more cost-efficient to make payments in the digital rather than non-cash ruble saving on average approximately RUB 70–80 per payment document. For the treasurer, this means that for payments in favour of counterparties that use the digital ruble they will need to convert non-cash rubles to digital in order to achieve savings on payments. Apart from expenditure transactions, the use of a digital ruble will help to reduce commission fees for income-bearing transactions for organisations that are serviced by financial institutions that charge fees on receipts in settlements accounts (such fees might reach 1% of the incoming payment amount). The same is true of the cash withdrawal in ATM where organisations might spend 2–4%. Such transactions are usually needed to make payments in cash which will no longer be relevant with the transition to the digital ruble payments.

Alongside positive impacts, it is important to be aware of constraints inherent in this approach. Financial institutions usually use the number or amount of transactions as a target and if the target is exceeded or not met, this might trigger changes in the terms and conditions of cash and settlement services. To prevent this from happening and not to let the positive impact to be “eaten up” by extra losses from the revision of fees, it is important to monitor when you are nearing such thresholds.

However it is important to note that this effect might be insignificant or nil for large corporations or organisations that have either their own bank within the group or a captive bank where fee rates for cash and settlement services are close to zero.



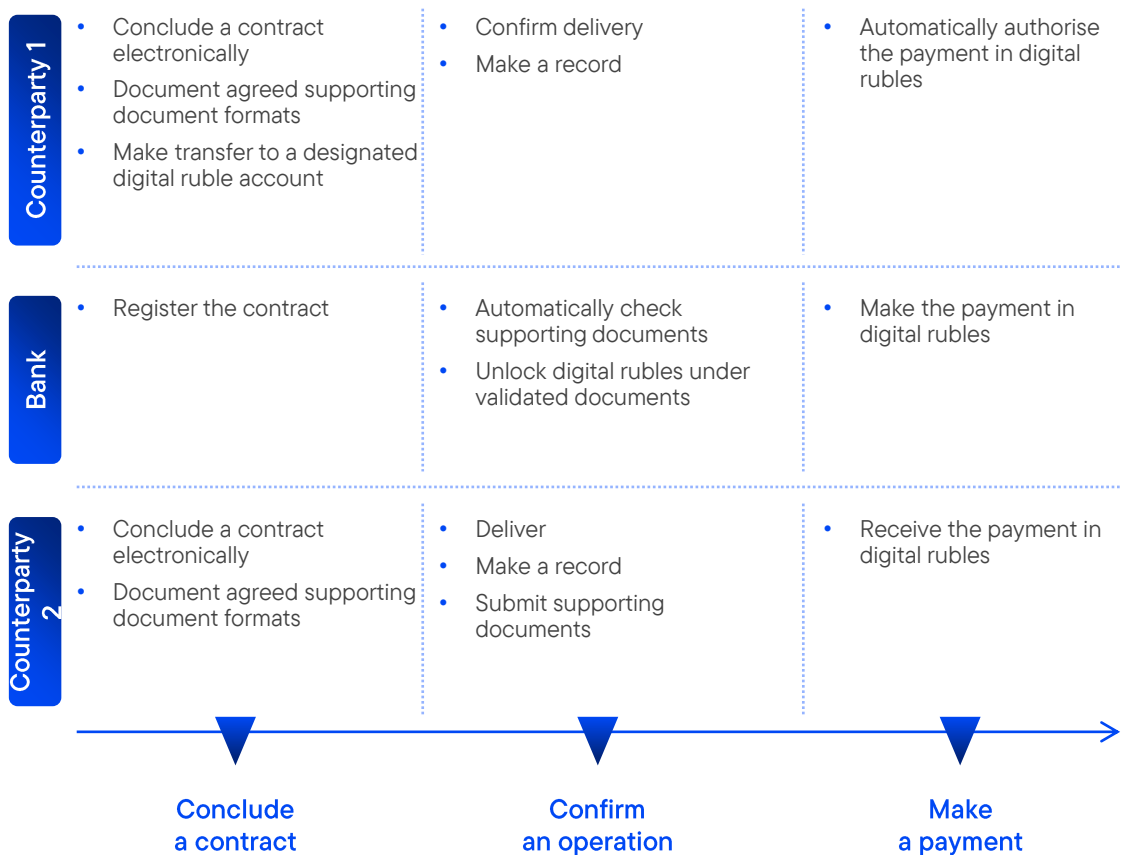
3. Conversion of non-cash rubles into digital rubles and back

Conversions of different types of rubles enable transactions set out in the preceding two paragraphs. To be able to make digital ruble payments, organisations are required to have a sufficient digital ruble liquidity cushion. This is in some way similar to a certain type of cash pooling arrangements where a corporate centre supplies liquidity to subsidiaries to meet their demand for cash. In this case, cash funds are also provided for a set of approved payments and are then returned back to a head company for centralised cash management.



4. Use of smart contracts for trade finance transactions

Smart contracts in combination with a digital ruble should be used to exercise treasury and banking controls whereby the controlled object is required to do certain things. For example, submit supporting documents. The point is that such controls are now exercised manually by financial or banking specialists. This includes both unlocking of trade finance instruments and executing management controls. With the proposed approach, instruments will be unlocked electronically and controlled automatically. Schematically this might look as follows:





5. Cash pool with the digital ruble concentration

The digital form should deliver economic efficiencies. Non-cash funds are concentrated in accounts of groups' corporate centres using cash pools. Going forward, the digital ruble is expected to be potentially accumulated in a single wallet. Financial institutions are not expected to immediately start offering such solution for the corporate sector. However, in its absence, organisations might on their own transfer digital rubles from accounts of their subsidiaries to the management company account to allow for subsequent centralised cash management.



6. Increased manageability of transactions involving an accountable advance spend

In this case, the business logic is the same as for trade finance transactions. The only difference is that the object that is controlled are employee expenses. Linking smart contracts concluded with employees (for example, as a framework agreement) with digital rubles will allow authorised persons to incur the pre-approved expenses only (within certain spend categories and limits).



7. Reducing the employee work load to handle multiple banking applications

The digital ruble platform is essentially based on a single technology, hence making payments using this instrument eliminates problems arising from multiple applications from different financial institutions and payment aggregators. All organisations have user accounts on the same platform meaning that payment authorisation follows the uniform rules. This is expected to resolve such issues as the need to sign payment documents with different tokens in different client-bank applications, additional labour costs when you need to switch between different applications and other.

The next step might be the replacement of payment aggregators with the host-to-host integration between an organisation's transactional system and user account on the digital ruble platform. In such case, organisations will truly have a one-stop shop for settlements with all counterparties. In this case, it be will required to explore which documents and formats (ruble payments, foreign currency payments, free format documents, statements, etc.) will be suitable for transmission via these channels.



8. Decreasing exposure of financial institutions to the credit risk

The transition to the digital ruble will undoubtedly change approaches to credit risk management in financial institutions. This will happen because the digital ruble operator role will be played by the Bank of Russia that provides the infrastructure and risk management on the platform; as a result, risks of cash losses are expected to be a fraction of risks of losses of non-cash funds held in accounts with commercial banks. From the practical point of view, for treasurers, financiers and risk officers this makes it possible to convert cash funds from non-cash to digital to release credit limits.



9. Reducing the labour costs of reporting for financial institutions

The point is that banks require organisations to provide numerous reporting forms as well as payment registers in order to confirm that the borrowed funds are spent appropriately. An organisation incurs additional labour costs to prepare such reporting forms or provide registers. Operational efficiency of communication between organisations and banks might be improved through the introduction of a smart contract under which an organisation will be able to spend digital rubles only on certain expense categories within the established limits. Where an organisation have some other downstream members in its value chain, smart contracts might be applied to them as well.

This will be a win-win situation for both parties: the bank or upstream value chain members will increase controllability of transactions and those parties that submit data to the bank or downstream value chain members will reduce the labour input in the preparation of supporting documents.

Transforming the treasury employee work day

The above changes will transform the work day of the treasury employee that now looks like this:

1

The day starts with the bank statement breakdown. This now takes less time due to a smaller number of items that are reviewed manually as a result of improved data analytics on the digital ruble flows.

2

This is followed by the determination of the current day cash position where digital rubles are presented in a special sub-ledger. To be able to make as many intra-day payments using the digital ruble as possible, the treasurer converts non-cash rubles to digital rubles.

3

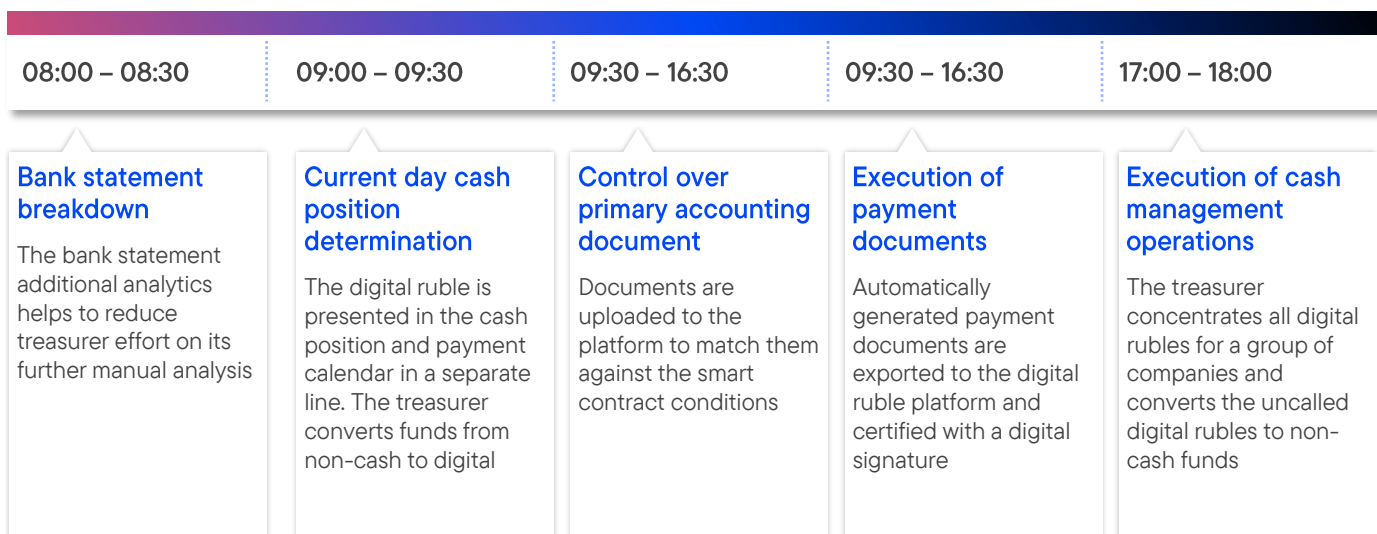
Contract owners download primary accounting documents that are processed to ascertain whether they meet criteria established for smart contracts. If the checks are successfully passed, the payment will be made.

4

Payments through the host-to-host solution are uploaded from the transactional system to the digital ruble platform where the authorisation of payment documents takes place.

5

The day ends meaning that the treasurer needs to complete cash management procedures. To do this, using the cash pool tool, the treasurer collects digital rubles from subsidiaries to the corporate centre, converts them to non-cash funds and places in active instruments.



This looks good on paper but we know that the devil is in the details. In our opinion, such details include:



This will take some time and effort to connect counterparties that are legal entities to the digital ruble payment platform and not all things will be done right first time;



Apart from external counterparties, the connection is required for subsidiaries of your group of companies and this also takes time and money;



The involvement of legal might also be required to explore how smart contracts might be used for control purposes;



Following the adoption of new ways to play, it will be required to refresh process maps, guidelines, and local regulations based on recent changes;



Converting non-cash rubles into digital rubles and back might take longer. As a result, cash management processes will be become more unwieldy and in some parts impracticable;



The functionality that is available for the Federal Treasury might not be unlocked for business in its entirety. Therefore, it might be problematic for business to apply the same procedures.

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