

## Treasury: The Last Frontier of Automation

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*This article reviews why the rate of treasury technology adoption is still relatively low and how treasurers can dedicate the energy required to implement an effective treasury technology structure while freeing up time for value-added activities.*

The increasing visibility of treasury and recent turmoil in the financial markets require treasury to use the optimal tools available to manage the corporation's liquidity and risk. In addition, recent technology developments have led to the availability of an array of solutions to meet all needs and budgets but yet current treasury technology adoption rates are relatively low.

### The Increasing Role and Complexity of Treasury - The Need for Technology

Never before have market and business conditions necessitated treasury to implement a streamlined and automated environment to the extent that they do today. Recent environmental drivers are increasing the demands on, and visibility of, treasury - making it impossible for treasury departments to function at an optimal level without the visibility, controls and analytics only available in an automated environment.

The market forces that have recently converged on treasury include:

1. The increased globalisation of firms of all sizes, leading to the rising complexity of managing banking, liquidity and FX risk.
2. The growing speed of business and increased competition, necessitating that treasury react quickly to the financial needs of the organisation (for instance, the need to quickly raise funding for an unexpected yet important acquisition).
3. Increased responsibility of treasury. The extensive market research conducted on an annual basis by *Treasury Strategies* shows that treasurers are taking on responsibility for a growing number of functions outside of traditional treasury management. These include corporate finance, tax, investor relations, enterprise risk management (ERM) and insurance, etc.
4. Continued staffing pressures. Despite the greater demands and responsibilities placed upon treasury, staffing levels have remained stable in recent years (after many years of decreasing).
5. Recent turmoil in the financial markets that have led corporations to look for cash internally. In fact, the increasing interest rates and the tightening of the credit markets have forced organisations to look for obscure sources of cash on the balance sheet rather than being dependent upon outside sources of funding. How to re-finance their commercial paper programme has recently become a top concern for many CFOs and CEOs.

### Treasury Technology Solutions - A Plethora of Alternatives

Alongside the changing nature of treasury, the treasury technology landscape has also undergone change and evolution in recent years. In fact, never before has such a plethora of system and vendor options been available to corporate treasury. Today, treasury can select from:

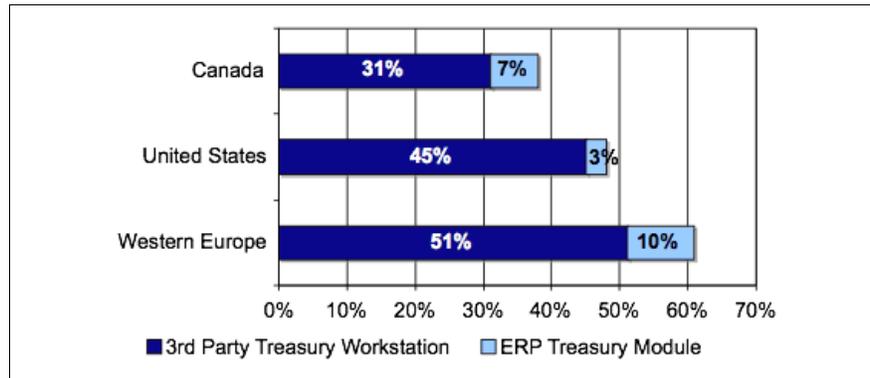
1. A wide breadth of systems - in fact, everything from traditional treasury workstations to specialised risk management systems, bank to book reconciliation systems, on-line trading platforms and cash forecasting systems are now available.
2. A large array of vendors - from third party, best-of-breed vendors to ERP system vendors and bank-provided solutions.
3. A multitude of deployment options - from the traditional models of installing in-house, to hosted solutions to ASP models.

The rising number of different types of systems, vendors and deployment alternatives has resulted in treasury technology solutions being offered and priced across a wide spectrum, from basic functionality to highly sophisticated capabilities. Treasury automation is now widely available to a broad array of firms regardless of size, budget and sophistication.

### Current Technology Usage - The Low Adoption Rate

Despite the growing need for treasury technology and the increased availability of options, adoption rates for treasury technology are still very low. The chart below shows the penetration rate for treasury workstations (also commonly referred to as treasury management systems). These results are from *Treasury Strategies'* 2007 Research Programmes and are based on over 1,000 interviews with corporations of all sizes in western Europe, the US and Canada.

*Usage of Treasury Technology by Region*



These results show that the penetration rates for the most widely used type of treasury technology - treasury workstations - are quite low. Penetration for other types of systems, such as risk management, multi-lateral netting, online trading and bank-to-book reconciliation, are dramatically lower. It is important to note that while the size of a company affects the level of adoption (with the largest of firms being much more automated), many large, global and complex companies are still managing their operations on spreadsheets. For instance, in the US market, 38% of firms with annual revenues between US\$5bn and US\$10bn and 50% of firms with annual revenues between US\$1bn and US\$5bn do not have a treasury workstation.

The next logical question is: why? Clearly, treasury functions involve enough complexity and risk to demand automation. There is no lack of options in terms of systems and vendors. Why then has treasury become the last frontier of automation within corporations?

### Reasons for Low Technology Adoption - How to Change the Landscape

Based on our research and extensive consulting work with corporations of all sizes around the world, we have identified two primary reasons:

1. A view of treasury technology as an infrastructure expense rather than a business investment.
2. Competing priorities.

Each of these is further discussed below.

#### ***A view of treasury technology as an infrastructure expense rather than a business investment***

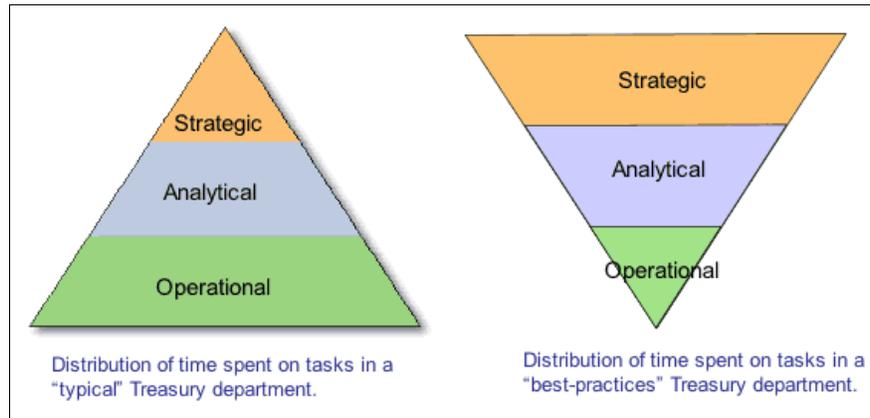
While many treasury departments understand the value and benefits that a treasury system can bring, they have been unable to garner senior management approval for this type of investment. In fact, the traditional way firms have built their cost-benefit analysis for treasury technology calls for proof of hard benefits typically in the form of cost reductions. Given that bank fees and personnel expenses are the primary costs incurred by a treasury department, and that technology can have a somewhat limited impact on these costs (for instance, in a thinly staffed treasury department, automation does not typically lead to reduction in staff but rather to redeployment of staff to higher value activities), approval for a technology budget has eluded many companies. Within this type of 'old-fashioned' philosophy, the only companies able to justify technology investments are those that have excessive levels of staff or banking services (very rare) or those companies who experience a 'disaster'.

In fact, many companies who may have initially denied funds for technology (due to the lack of ability to cut costs elsewhere) later reverse their position after an event, such as fraud, errors on financial statements, or lack of information required by senior managers. While the end result is commendable, buying a treasury system after the 'disaster' has occurred is comparable to purchasing fire insurance after the factory burns down.

Despite the fact that the potential financial damages from mismanagement (or lack of optimal management) of a corporation's liquidity and financial risk can be tenfold those that would be suffered due to a fire, many CEOs and CFOs (who would not approve of their firm's lack of fire insurance) are quite content leaving the management of all bank accounts, cash and financial risk to error prone manual processes. This laissez-faire attitude of 'don't fix it if it isn't broken' is laden with risk and missed opportunities to optimise the firm's liquidity.

In recent years, many opportunistic treasury departments (who were not able to get budget approval based on the requirement to cut costs) took advantage of increased regulatory requirements to gain the necessary approval to invest in treasury technology. These treasuries justified the cost of the technology by stating (rightly so) that implementing the required controls and audit history in a spreadsheet environment is near impossible. In fact, in the years from 2002 to 2005, we did see a huge increase in the rate of adoption for treasury technology.

Today, we are seeing strategic-thinking treasuries redefine themselves into service-oriented departments providing advice and guidance to senior management, the board of directors and the company's business units. These treasury departments view technology as a tool enabling them to realise their full potential. They understand that their ability to add value and become a strategic business partner to the rest of the organisation is directly linked to their ability to automate manual, repetitive tasks. In essence, they use technology to move from the environment depicted on the left to that shown on the right in the graph below.



When considering implementation of a treasury system, it is best to approach the cost-benefit analysis with a holistic view of all benefits provided by these systems, and to also remember that treasury's influence and potential impact (both positive and negative) far exceed the cost of a system. Examples of the categories of benefits that should be considered include:

1. Cost savings.
2. Revenue generation.
3. Productivity improvements.
4. Compliance reporting.
5. Improved control and fraud mitigation.
6. Enabling value creation (i.e. treasury as a service centre).

It is important, and most effective, to consider benefits across the six areas listed above and not to limit oneself to a narrow view of the function of treasury and the benefits of automating its activities.

#### **Competing priorities**

Another reason for the lack of treasury technology usage is the sheer number of competing priorities facing treasury. In many companies, treasury never 'gets around to' the automation project despite receiving approval for a technology project and despite the best intentions to implement a system. In fact, year after year, a significant number of participants (around 20%) in our market research state that they plan to select and implement a treasury system in the upcoming year. And yet, the year-over-year growth in the adoption rate is much lower than 20%. Vendors of treasury technology often lament that their largest loss rate is due to 'no-decision'.

This is an understandable situation: as we have already stated, treasury departments are experiencing ever increasing demands on an already small staff. Selecting and implementing a treasury system (or in some cases, multiple systems) is a long, demanding and, at times, difficult process. It is easy, therefore, to place the automation project on hold in order to focus on other projects and priorities. While understandable, this course of action is somewhat counterproductive given that automating the environment will, in the long term, free up more of treasury's time to address all of the other priorities.

There are solutions available to companies who face the situation of inadequate staffing levels required for a technology project. Some options adopted by our clients include:

1. Hiring of temporary staff to increase the team's capacity for the duration of the technology project.
2. Engaging a third-party consulting firm who can, not only bring additional resources to supplement treasury, but also provide deep experience and knowledge of how to implement treasury technology effectively.
3. Borrowing staff from another department or business unit for the duration of the project. This not only has the advantage of supplementing treasury's capacity, it also enables cross training of other departments.
4. A combination of the three approaches listed above.

By adopting one of the approaches listed above, an organisation can dedicate the energy and focus required to implement an effective treasury technology structure; which in turn, will free up treasury's time for future projects and value-added activities.

#### **Conclusion**

Given the sheer amount of pressure and strategic demands put upon treasury, and given the multitude of system, vendor and pricing options available today, treasury professionals should not only endorse, but also demand, the tools needed to perform at an optimal level.

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