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# The Next Generation of Treasury Management

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*When it comes to technology, treasurers have a plethora of systems and vendors to choose from. This article provides an overview of the types of systems that are available today and how they can be integrated throughout the treasury workflow.*

The demand and return on investment (ROI) potential for treasury automation has never been greater. In fact, in surveys we conducted in the US and western Europe, Treasury Strategies has noted that the number one 'top-of-mind' issue for treasurers is technology. In addition, technology-related projects rank at the top of the list of planned projects for the upcoming year for treasury departments.

This is not surprising given that the visibility that most treasury departments receive today is much higher than ever before, along with the demands placed on treasury. Through extensive work with organisations of all sizes and across all industries, we have observed a fundamental shift in the execution and management of treasury. In fact, treasury is evolving into a third generation of itself.

## Evolution of Treasury

Treasury management as we know it today started in the late 1940s when banks first started offering business services to their clients. These included lockbox and other basic payment services. Treasury management in its first iteration was primarily operational and clerical. Corporate treasury, during this period, managed bank accounts and the mechanics of moving money to pay or receive efficiently.

The first generation of treasury management lasted until 1971 when the Bretton Woods system ended and interest rates soared. The second generation focused on the more analytical and proactive aspects of managing and protecting liquidity in a world of fluctuating currencies and interest rates. This was facilitated by the advent of controlled disbursement (in the US) and sweep account products from banks (enabling corporations to better manage timing for daily payments and balances) along with early treasury management systems.

The third generation of treasury management is now just beginning to evolve. World and economic events are leading to an increased focus on financial accountability, reporting, transparency and risk management, thus thrusting treasury management into the limelight. Today, treasury is undergoing a fundamental shift into a highly visible and strategic partner within the organisation. Ed Barrie, group treasurer at Microsoft, recently stated that treasury professionals need to "spend less time managing transactions and more time managing assets". As a result, traditional products will increasingly become embedded within more comprehensive and technological solutions.

## Evolution of Treasury Technology

A key building block to enable this next generation of treasury management for corporate treasurers is a strong and integrated technology infrastructure. The types of systems and solutions available to corporates today are very extensive and include the following options:

*Treasury workstation systems (TWS) or treasury management systems (TMS)*
TWS/TMS are still the most popular type of system. They encompass a broad array of functionality across all treasury activities (cash management, forecasting, debt, investment, FX, payments, cash pooling, intercompany lending, etc). While these systems have been available for many years, the expansion in the types of vendors offering the systems (third-party best-of-breed vendors are now joined by ERP system vendors and banks) enables a greater fit across more types and sizes of companies. The advent of web-based and subscription based TWS/TMS systems has also expanded the number of companies that can buy and deploy these systems.

*Bank and counterparty communication tools*
When we work with corporate clients to map out their requirements for treasury systems, the promise of efficiency is predicated on a seamless flow of information to one central system from which analysis and reporting can be extracted. That foundation rests on communication with counterparties and banks. For two decades, treasury

management systems have been based on direct links to banks through vendor interfaces. Now, treasuries have more choice in determining how counterparty information will be received.

One of the most compelling propositions for large organisations is SWIFTNet for Corporates. Through a single connection to the SWIFT network, corporations can receive information reporting, send payments and confirm trades with all of their bank counterparties. As SWIFT adds more corporates to its network, the model will encompass various levels of membership, message and file types, and connectivity alternatives to allow for organisational flexibility. For smaller companies, SWIFT is incorporating packages attractive to those with smaller IT budgets and fewer global banks. Traditional routes to bank connectivity have not been supplanted - multibank reporting is still popular for many organisations. Others rely on data aggregators to acquire bank reporting from financial institution counterparties that may not be on the SWIFT network. The data aggregator then delivers a single file to the treasury management or ERP system. Whichever model an organisation selects, it is imperative to examine all of the options available in the marketplace today.

*Online trading platforms*

Another element of the foundation is the management of transactions in a more highly regulated corporate environment. Treasurers are now demanding that treasury management systems fulfill the promise of straight-through processing for trade execution and confirmation. This means that vendors must be able to provide an interface with online trade execution platforms (such as Bloomberg's BOOM and FXall). But the interfaces need to go beyond the import of basic trade data to enable enriched information such as competitive bids, credit ratings, etc. Companies want to ensure that the controls and limits mandated through investment and risk management policies can be proactively monitored in the technology platforms. The extent to which treasury management system vendors can deliver such proactive controls around trade execution, will differentiate their product in the marketplace.

*Risk analytics*

For risk management, treasury management systems have traditionally layered on analytics modules that may not meet the most sophisticated needs of clients. Risk management encompasses a broad array of functions, and there are a vast number of best-of-breed solutions to address investment portfolios, asset/liability management and FX exposure calculation. To the extent that system vendors incorporate meaningful analytic functions in their broader treasury management system offering will meet a growing need. For example, many corporates have recently struggled to value investments in auction rate securities and have to rely on broker counterparties rather than perform independent valuations. Similarly, there have been frustrations among many treasury system users relative to the performance of hedge accounting effectiveness assessments under FAS 133 and IAS 39. Too many systems are predicated on companies electing simple accounting treatment.

*Multilateral netting systems*

We frequently observe that as companies grow and globalise their operations, they may experience a significant increase in the number of internal transactions and invoicing amongst subsidiaries. The ability to track, identify and report internal payments can significant reduce disputes and late payments. In addition, by netting and centralising these internal transactions, companies can significantly reduce the number of payments and FX transactions (some of our clients have experienced as much as 60-80% reduction in FX transactions). Such netting programmes also form an integral part of payment factory workflow. Added control and better FX rates are also achieved through the centralisation of all foreign exchange management in corporate treasury. Liquidity and cash flow management can also be achieved through the acceleration or delay to/from the netting centre and the various subsidiaries based on whether the subsidiaries are cash rich or poor.

Straight-though processing can be achieved by interfacing the netting system to a centralised ERP system (to import the internal payables information) and the TWS/TMS system (to export the netting transactions into an internal cash pool or intercompany loan structure thus eliminating the need to physically move the funds.

*Bank-to-book reconciliation systems*

The increased focus on transaction reporting and risk mitigation has led many of our consulting clients to implement bank-to-book reconciliation systems. In fact, we have seen a significant spike in the adoption rate of these systems in the last two to three years. The ability to track, identify and reconcile every single bank transaction in an automated fashion reduces FTE requirements, increases the ability to identify and prevent fraud and significantly reduces the time requirement for the monthly close process. In an era of heightened sensitivity and focus on financial metrics and fraud mitigation, these systems have become a 'must-have' for many treasury and accounting departments.

*Bank relationship and bank account administration*
Finally, the need for bank relationship management tools has never been higher. We see among our clients that virtually every large organisation spends too much time managing bank relationships, whether it is fee analysis, user entitlements for bank online systems or simply tracking the number, type and signatories for bank accounts. Spreadsheets have been the predominant application for this effort and do not offer the security or accuracy that organisations desire. Treasury management system functionality in this area has been minimal for the most part, and it has fallen to the specialty vendors to develop more tools around workflow relating to account opening and closing, account services selection and tracking of bank account signatories. We expect companies in the market for treasury management systems to demand more functionality in this area.

## Moving Forward

The good news for treasurers is that there are numerous systems and vendors to select from. The bad news is that it can be difficult to wade through and understand the different types of systems and integrate them fully throughout the treasury workflow. Despite these difficulties, it is important to develop an effective technology strategy and infrastructure. In fact, all of the potential that technology offers cannot be harnessed if a solid and integrated foundation is not built.

Moving forward, the challenge for corporates will be to implement and maintain an integrated, centralised and fully automated technology infrastructure. The challenge for the vendors will be to evolve their solutions to meet the new needs of treasury. Both vendors and practitioners will need to recognise that a significant differentiator of successful firms in the third generation of treasury management is the ability to implement integrated solutions rather than a cluster of operating products.