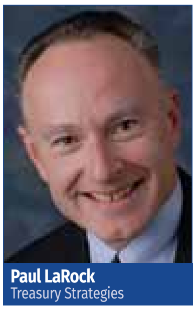
Creating value in Treasury

Paul LaRock, Principal, and Jeff Diorio, a Managing Director, at Treasury Strategies explain the changing role of Treasury and how it has transformed into the corporate nerve centre.


Paul LaRock
Treasury Strategies

Why is Treasury continuing to grow in strategic importance?

PL: Treasury's recent growth in terms of a strategic department goes back to the financial crisis when corporates needed to know their risk exposure to various financial institutions and other counterparty risk exposure. A lot of corporations did not have true global visibility of all of their exposures. They had partial visibility – certainly of their exposure to their main banks – but not of all their peripheral operations. That put corporate treasury in a driving role in order to understand those exposures and to indicate them to senior management and boards of directors.

More recently, in the latter part of last year, rapid changes in foreign exchange rates have put corporate treasury in the forefront of defining what the currency risks are for corporations, and what if anything they want to do to hedge them.

Cyber-crime is also becoming a much bigger concern for corporations, particularly in the US where credit card data breaches have been on the rise as a result of uniquely vulnerable databases. Treasury departments are frequently in charge of merchant card processing, and are playing a lead role in fighting cyber-crime.

What initiatives can firms undertake to move Treasury towards becoming a value creation centre, not just a cost or profit centre?

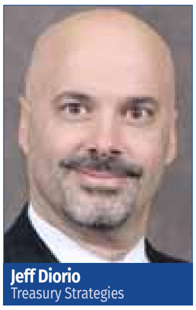
JD: Treasuries have evolved over the last 30 or 40 years from just making sure they had adequate control of transaction monitoring and accounting to actually being a value-added provider within the organisation by being the nerve centre. The concept is that Treasury is the nerve centre of financial information within a company, and knowing counterparty and risk exposure is part of this.

In addition, some Treasury departments are operationally focused, and looking to lower the cost of financial transaction processing in an effort to improve straight-through processing and deliver benefits to the organistion as a whole.

How are Treasury groups expecting to cope with financial volatility and uncertainty in 2015?

JD: Organisations are still working on something they have been trying to do well forever: looking at a better way to understand a company's exposure. You can't protect against something if you don't know what your true exposure is.

FX risk has come into the spotlight again, and eventually interest rate risk will re-emerge as an issue. But you can't hedge these things properly unless you have a good mechanism for quantifying what your exposure is. And also having an updated policy in place in how to address it has become crucial. That is because some of the new regulations that have been put in place have complicated the reporting and analysis required when companies hedge risk. Dodd-Frank regulation has certainly altered companies' appetite for doing certain types of hedging because they have to be able to perform proper accounting reporting based on that regulation.


Jeff Diorio
Treasury Strategies

What are the strategic goals on which corporate Treasury will focus in 2015?

PL: I think cyber security and risk management around interest rates and FX rates are going to be very important for them. These are the things that could change earnings per share materially. You talk to a company which has had a big data breach and they will tell you how they watched their revenue drop afterwards, and you talk to somebody who has large FX exposure and they will tell you about volatility in earnings that they and their shareholders don't appreciate.

While managing those two fires, there is a third element – and that is what can be done to help the efficiency of the company in terms of financial transaction processing that is beneficial in the long term.

But most treasurers right now to the extent that they have FX risk or perceive they have a cyber-security issue, are going to focus on those two things over the efficiency part of their job.

How can technology help Treasury to achieve its goals?

JD: From the technology point of view there has been a consolidation in the Treasury management systems industry. What's nice about it is there are now a number of different options: companies can go with an installed solution, a hosted solution or with a software-as-a-service (SAAS) solution where they can leverage a vendor's capabilities in a shared way so costs are spread out.

The other nice thing is some of the better treasury technology was really only in the domain of the top tier companies, and a lot of firms did not have the wherewithal to bring the technology to bear. That has now changed with the migration to SAAS and some of the other solutions. More companies can leverage this technology.

Further information: www.TreasuryStrategies.com