Centralising treasury: a new frontier

Treasury centralisation is not a new topic. Corporate treasurers have been centralising processes for the last 20 years, but the techniques that they use continue to evolve. In particular, developments in technology are opening up centralisation techniques to companies which have not previously undertaken a centralisation exercise, writes FX-MM's Rebecca Brace.

While many companies have already centralised some aspects of their treasury operation, this continues to be a hot topic. "Everybody who should and can is centralising right now," says Bruce Meuli, Global Business Solutions, GTS at Bank of America Merrill Lynch. "Previously there were quite a few barriers in the way – but with the increasing roll out of global ERP and treasury management systems and shared service centre centralisation, treasury has come to the party and said, there's no reason why we shouldn't centralise."

Martin Taylor, VP Sales Northern Europe at Kyriba, says that a large percentage of global organisations are currently evaluating whether they can achieve greater efficiency and increase the movement of cash by centralising some or all of their cash and treasury operations. "Advancements in cash management resulting from deregulation in geographies such as China have spurred multinationals to ensure their treasury structures remain optimal," he adds.

Degrees of centralisation

Centralisation means different things to different people – and treasury centralisation comes in many forms. These range from cash concentration structures which pool cash balances in a single header account to in-house banks which perform a number of services for business units. The desired level of centralisation also varies considerably: some companies will look to achieve global centralisation, while others might be looking to put in place several regional structures or processes.

Where centralisation structures are concerned, a number of models are available, including payment factories, in-house banks and shared service centres. While a shared service centre undertakes services for many different parts of the organisation, such as HR and IT, payment factories and in-house banks are structures which concentrate on providing financial services to business units.

David Stebbings
PwC

Payment factories tend to focus only on accounts payable, whereas in-house banks can incorporate other processes such as liquidity management and foreign exchange transactions. However, these definitions are not set in stone. "There tends to be a significant amount of confusion regarding the difference between payment factories and in-house banks," comments Meuli. "We tend to go around that by focusing on the functions of a structure – then companies can call it whatever they like."

There is also significant variation in terms of the structures used to centralise treasury activities. "There's no one model for treasury centralisation," says David Stebbings, Head of Treasury Advisory at PwC. "Some treasuries might put their payments factory within the shared service centre, while others might put it in the treasury centre. It depends on the nature of the business, its culture, geography and systems landscape, and the responsibilities of treasury within that organisation."

The structures used by companies are continuing to evolve, with more companies adopting collection factories. Banks are also reporting greater levels of interest in Payment On Behalf Of (POBO) and Receivables On Behalf Of (ROBO) or Collections On Behalf Of (COBO) models, whereby a structure makes payments or collections on behalf of entities within the organisation.

Mark van Ommen, Associate Director at consulting firm Zanders, says that as well as continuing interest in the more established centralisation models, he is also seeing some large corporations beginning to implement sophisticated transaction hubs. "Once companies have an in-house bank and are uploading their bank statements into a single system, they can use all that information to do enhanced analysis – such as gaining a quick overview of which countries are generating cash and which are burning cash," he comments.

Van Ommen cites the example of a client which has built such a transaction hub system. "They are using all this information in a nice graphical dashboard along the lines of Google Maps, allowing them to see on a real-time basis where the cash is," he explains.

This type of model is being driven by developments in the area of data analysis as well as by companies which are integrating their treasury management systems with their ERP systems. By combining different data sources, companies are in a better position to undertake enhanced analysis of their cash positions.

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Tracey Ferguson Knight
Reval

Drivers for centralisation

Companies have been centralising treasury activities for many years – but the reasons for doing so have shifted over time. Meuli says that while cost reduction and better controls continue to be key drivers for treasury centralisation, companies are increasingly revisiting the role of treasury within the organisation and exploring how the treasury function can add value above and beyond the traditional role of process executor.

"If you do centralise, you create a role where the treasury becomes more of a process manager and a key stakeholder of that operational process," he observes. "Treasurers can then think about how best they can add value to the organisation."

This might mean putting in place FX rules, such that every FX


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John Byrne
Salmon Software

transaction over a particular value is managed through a different process rather than going straight to the bank – instead the treasury might intervene and consult a market panel of banks. Centralisation also puts treasuries in a better position to understand their risk exposures by currency or geography.

For companies expanding into new countries and markets, centralisation also has much to offer. “Treasuries are putting in place nimble infrastructures that can scale as they grow, regardless of how many new countries or locations come on board,” says Tracey Ferguson Knight, Solution Director for Reval. “By doing so, they can limit the number of new banks and accounts to just those needed for local cash or funding needs. Establishing a centralised structure such as an in-house bank, often with a shared service centre running a payment factory, makes this a possibility.”

One factor which has had less impact than some had expected is the arrival of the Single Euro Payments Area (SEPA). While SEPA has been touted as a driver for many companies to centralise their treasury activities via in-house banks and payment factories, van Ommen says that this has not proved to be the case. “Some early adopters did use SEPA as an opportunity to standardise and centralise, but with many companies waiting until the last minute to migrate to SEPA, relatively few have actually taken the opportunity to implement rationalised payment processes through a payment factory,” he observes.


Paul LaRock
Treasury Strategies

Role of technology

Technology is another key enabler for treasury centralisation – whether companies are implementing an organisational structure such as a payments factory or are looking to standardise processes carried out by teams around the world. Indeed, Ferguson Knight says that technology is fundamental to establishing and running an efficient in-house bank. “To think this can be done manually on spreadsheets is not only impractical, it is dangerous,” she warns.

Jeff Diorio, a Managing Director at Treasury Strategies, says that while long-standing treasury management system vendors like SunGard and Wall Street Systems have supported companies in their use of shared service centres and in-house banks for some time, the landscape is continuing to evolve. More recently, new entrants offering software-as-a-service solutions have opened the market up to companies which might not have been able to afford this type of technology in the past.

“There is a growing requirement for a mix of cloud and on premise solutions whereby the cloud facilitates intercompany orders for requirements such as foreign exchange, working capital and payments,” says John Byrne, Managing Director at Salmon Software. “These orders are processed at centralised level and confirmations and positions relayed back to the requesting entities via the cloud”

“Many companies are turning to scalable, multi-tenant cloud solutions, delivered as-a-service,” comments Ferguson Knight. “Cloud-based in-house banking functionality should allow companies to capture and track entries, calculations and statements they produce, which must be dependable and correct because treasury becomes the bank. Treasury’s in-house bank statements become ‘the law’, just as statements from banks are the final record of what occurred in actual bank accounts.” Payment factories can likewise benefit from cloud-based solutions.

Meanwhile, there is a growing need for greater integration to support centralisation in the area of reporting. “Treasury centralised reporting has become a big data issue – more complex and more demanding than ever before,” says Taylor. “In order to meet (near) real-time reporting demands, treasurers have to integrate their

TMS with the wider enterprise IT landscape, external banking partners and data providers. Arguably their biggest challenge is to meet the demands for more centralised reporting without compromising on quality."

Steps to centralisation

Companies implementing centralisation structures can access external support from a number of sources, including banks and consultancy firms as well as technology vendors. Meuli says that banks are increasingly being called upon to provide advisory services in this area: "Transaction banking is not just about executing transactions – companies are becoming more aware that their banks can be and should be used as more of a strategic partner."

Centralisation isn't necessarily a one-off event: many companies continue to develop their centralisation structures in order to gain further benefits. "Few companies jump from a fully decentralised model to a fully centralised model in one step," says Jerry Pearce, Head of Global Cash Products at RBS. "Rather, there is a progressive move towards centralisation over time in search of better control, visibility and enhanced financial performance."

According to Pearce, the first step towards the centralisation of treasury activities could be the introduction of a liquidity overlay solution, helping the corporate treasurer to make the most of the company's funds by recycling cash-debits in one location, which can be set against credits in another.

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"Further evolution of the centralised model may well lead the treasurer to look at an in-house banking model," he adds. "Combined with internal netting of these internal flows, this can substantially reduce the number of external bank accounts, fees and cross border transactions.

"Beyond this, establishing shared service centres, centralised trading centres and payment factories are all enhancements to the model which, done well, should bring significant benefits to the corporate in terms of financial benefits, better control and management of risks, and enhanced visibility and understanding of the company's complete overall financial position."

"One of the ways to make the most significant dollar impact is by reducing banks and accounts for payables and moving to a pay-on-behalf-of arrangement, where you make payables out of just one or a few bank accounts," adds Reval's Ferguson Knight. "You really have to work closely with tax and legal to set this up, but in conjunction with an in-house bank, the savings can be tremendous."

But centralisation can bring drawbacks as well as benefits. For one thing, it is important to recognise that centralisation can also reduce the company's local market knowledge. "There's a balancing act that we frequently help our clients navigate," explains Paul LaRock, Principal at Treasury Strategies. "If you have operations in Europe and Asia, and you are centralising into New York, you are going to be dealing with some time zone challenges. You are also going to be pulling back from vendor facing and customer facing positions. So you will need someone to act as the eyes and ears on the ground for treasury to understand the needs of vendors and customers who are far away from the central location."

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Avoiding the pitfalls

Companies should be aware of the following considerations when undertaking a treasury centralisation project:

- "No two organisations are the same, even within the same industry, so being cautious when emulating others' best practices is prudent."
  Martin Taylor, Kyriba
- "You can't centralise everything. Treasury is still a complex piece of business with many local restrictions and complexities. So when centralising and standardising processes, you need to be careful not to lose the local agility needed to respond to certain local developments and specific situations."
  Mark van Ommen, Zanders
- "Centralisation has to be carried out in line with the company's business model. If the company is decentralised, a centralised structure can create tensions, leading to a greater need for proper service level agreements and demarcation."
  David Stebbings, PwC
- "A number of companies have focused on the technical delivery of the required systems and processes but may have neglected to ensure a strong level of buy-in and commitment from their subsidiaries. These subsidiaries would as a result cede responsibility and control over a number of key treasury activities as part of a centralised treasury model."
  Jerry Pearce, RBS
- "Treasurers need to take an active part in finance centralisation, such as a shared service centre implementation. The project is often being run by finance, with treasury receiving updates about what is happening. Treasurers need to understand and own the processes being centralised or outsourced and take ownership of the output so that they can have a large impact on how the processes are executed."
  Bruce Meuli, Bank of America Merrill Lynch

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