Time to embrace technology

EDDIE FOGARTY
EXAMINES WHY SO
MANY TREASURERS ARE
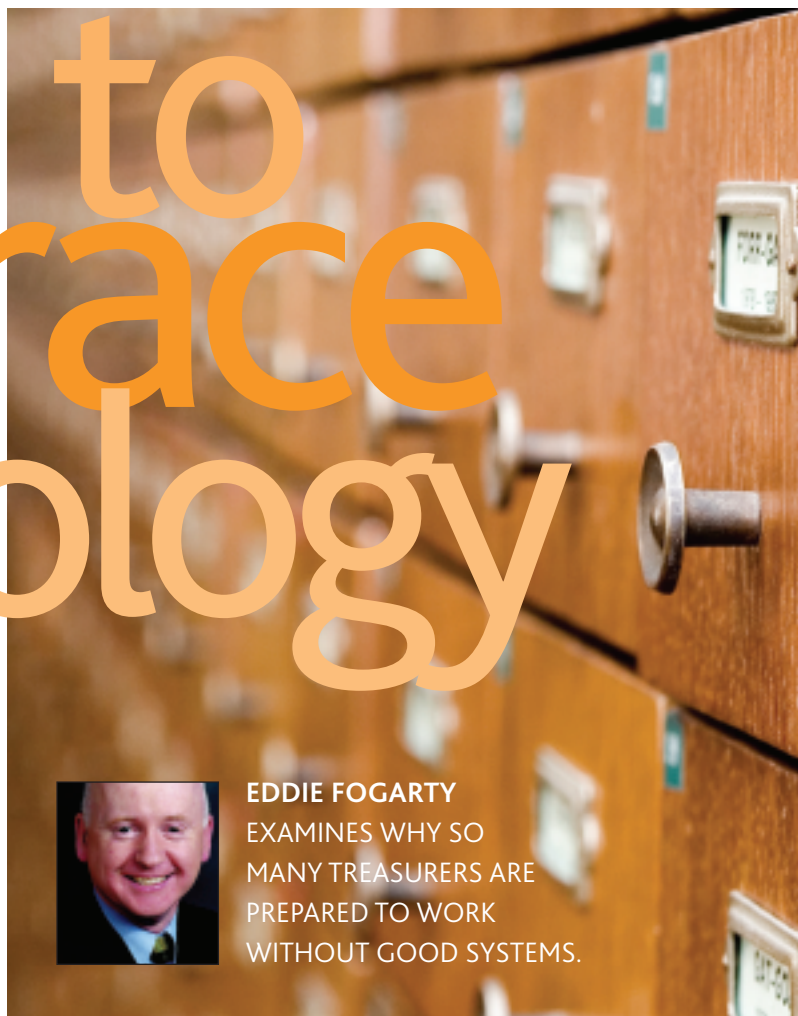PREPARED TO WORK
WITHOUT GOOD SYSTEMS.

Executive summary

■ Most treasuries struggle with often mundane problems of data, analyses and reporting, and lack proper systems for this routine, day-to-day business. The perceived costs and risks of changing are seen as too high or uncertain.

The treasurer is a knowledge worker. Information, judgement and decision-making are the essentials of the trade. Working at the interface with the financial markets, and managing the exchange that takes place, the treasurer either takes value from, or gives value to, the market. This knowledge worker can gain or lose considerable amounts for the business.

Knowledge workers cannot function without information. Raw data is not good enough – it has to be informative and add knowledge and insight to the person receiving it. The demand for information is increasing to meet the needs of business management, compliance and reporting. Yet too much information can lead to the problem of 'information overload'.

It is surely not possible to meet these needs without good systems. But many treasurers do, even though such an approach to treasury management might at first glance appear inadequate and irrational. Let me make clear that I do not advocate 'treasury by spreadsheet'. However, I think I can explain this common phenomenon. My views are based on a broadly based involvement with a range of European and US treasuries, and indeed further afield in South Africa and South America.

'WE MUST DO SOMETHING ABOUT OUR SYSTEMS' While it may be obvious, it is remarkable how similar treasury is from country to country, apart of course from the peculiarities of domestic markets. By that, I mean treasurers grapple with more or less the same issues,

regardless of company or country. Most treasuries struggle with problems of data, analyses and reporting. In many respects these are mundane problems. For most treasurers, it's not a matter of atom-splitting some esoteric aspect of value at risk (VaR) or doing the deal of the year, it's the ongoing business of transactions, analyses and information flow. Many treasuries have yet to put in place proper systems for this routine day-to-day business.

Given so much in common even across national boundaries, it is striking to see the different responses of treasurers to more or less the same set of circumstances. Many treasuries – even some large PLCs – try to run their treasury business using old, inflexible systems, spreadsheets and workaround solutions. Often there is a high dependency on one or two individuals who manage to produce the ongoing analyses and reporting. Why is this? It can't be that obviously intelligent people think it is the best way; it has to be that the perceived costs and risks of changing are seen as too high or too uncertain.

Few treasuries are in a steady state in terms of systems and technology. The reasons for this include corporate change, group companies splitting up, consolidating, and so on. Often, it's just the pressure of old systems that cannot be relied on any longer or the cumulative effect of a whole series of technology, regulatory or accounting changes. For all these reasons, treasury systems are almost a universal treasury priority and there is a very common perceived need that 'we must do something about our systems'.

treasurer is at fault for trying to create the perfect solution. Too much focus can be on the more complex and thus seemingly the more important areas. The reality is that almost without exception, outside the realm of proprietary trading, treasury misadventures resulting in major loss have been due to basic control failures. It would be a rare inquest into a major treasury loss that concluded it would not have happened if a better VaR model had been in use. Typically, the problem could have been prevented by having proper front/mid/back-office controls.

Spreadsheets are used because they are so readily available, can be easily changed and their initial costs are low. And therein lies their weakness. Treasury by spreadsheet can lead to fragmented models and reports, regularly changed and as a result understood only by the current expert – ongoing risks and costs are stored up for the future.

SYSTEMS DON'T TAKE GAP YEARS Worldwide, there is a shortage of skilled treasury staff, which will grow with the expansion of the financial sector. Staff turnover will remain high because multiple careers and job hopping are now the norm. Today, saying we must invest in our systems is as valid as saying we must invest in our people – and systems don't take gap years to go to Australia. The dilemma is that it is extremely difficult to address systems change at times of staff turnover, even though staff turnover strengthens the case for better systems. As well as staff pressures, there are competitive pressures for change. Eastern Europe, China and India are skipping generations of technology, and will have the latest while many in the old economies will hold onto legacy systems and practices.

MAKING THE LEAP FORWARD Treasury cannot afford process failures; the potential costs are too high. My view is that the treasury system should be the business process rather than merely support it, and workflow and business rules should be embedded in the system. Security and control should be achieved through treasury systems.

Systems projects can bring high costs and risks. Everyone knows of a systems project from hell – it cost a fortune, took forever and in the end failed to deliver. But technology has changed and now you can have modest-sized systems that do not overwhelm the user. Mega-projects with mega-budgets belong to the past. Treasury systems can be expensive projects, but they need not be.

The critical part of any project is at the very beginning, getting the basic concept right. Too often, this stage is rushed. The treasurer is the key player and must ensure the basic concept is the right one. False assumptions at the start can have big costs later on. The treasurer must also guard against design creep – the accumulation of a lot of small additions, each perfectly justifiable on their own but when taken together, results in a moving target of ever expanding size.

There is a challenge for systems vendors to make the acquisition of new systems as painless as possible. This means having the necessary treasury expertise to bridge the gap between the two specialist worlds of IT and treasury. Without this, there are two sets of experts, talking different languages.

Modern business requires us all to be knowledge workers. Time spent just looking for things or producing data is a waste of valuable resource, especially in treasury where there is huge scope to add enterprise value. Treasury has to embrace technology.

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WHY TREASURY BY SPREADSHEET? It is important to understand the treasurer/vendor relationship. The 'specification of requirements' is the starting point for most systems procurements. These vary a lot from company to company, but a common approach is to produce a checklist of requirements. The checklist approach has a number of weaknesses, the main one being that two very different systems can give the same 'yes' and 'no' responses to the list of requirements. In other words, it's a broadbrush approach to comparing complex systems. A more in-depth approach is needed that goes beyond the traditional system 'demo'.

Treasury systems have become functionally rich – in other words, they can do more things. It is difficult for a treasurer to genuinely understand all that a treasury system can do – and cannot do – prior to using it in practice. On the other hand, the vendor fully knows the system, but often does not know the treasury. The cautious treasurer will be reluctant to cross this gap.

Adopting a new treasury system requires a level of commitment. Yet the treasurer likes to have flexibility: to mature early, to exit transactions and to change banks. So going into a deal on systems, which traditionally have big up-front costs and demand long-term commitment, has been too big a step for some treasurers. As a result they opt for treasury by spreadsheet.

Apart from the uncertainty factor and the reluctance to make a long-term commitment to a specific system, sometimes the