

# PLAYING THE PERFECT HOST?



OUTSOURCING YOUR TREASURY MANAGEMENT SYSTEM AND CUTTING DOWN ON THE COSTS SOUNDS THE PERFECT SET UP, BUT IT ISN'T ALWAYS SO, SAYS **PETER BARNES** OF KPMG.

The application service provider (ASP) model is an established means for delivering software solutions to organisations. The ASP will deploy, host and manage access to an application for multiple parties from centrally managed facilities, removing the need for firms to implement and support a system in-house.

Given the obvious benefits to both the supplier and client, it would seem the 'traditional' treasury system purchase and implementation faces stiff competition. In practice, though, this does not appear to be the case. This article looks at the reasons why the ASP model for treasury management systems has not lived up to initial expectations and the current status of the market.

## THE CASE FOR AN ASP SOLUTION.

When the first ASP was launched the expected benefits of a faster implementation, lower ongoing costs and risks, and the availability of qualified technical personnel, appeared irresistible. Now that the ASP model is firmly established, this view is being challenged. The main potential benefits of an ASP solution are discussed below, along with an alternative perspective.

**LOWER COSTS.** The most commonly cited reason for treasurers looking to outsource their treasury systems is cost. Rather than purchasing a system outright and installing it in-house, the ASP will host the system and charge a monthly service fee. The service fee can be treated as an expense item, rather than as capital expenditure, which may make it easier for the treasurer to obtain internal approval for the spend. However, it is worth bearing in mind that some system suppliers will offer their system on a rental or lease basis, which could offer the same benefits for the treasurer.

On closer inspection of the costs of an ASP solution, the comparison with an outright purchase of a system becomes less favourable. As with most rental agreements, the user ends up paying for the system several times over during the course of the contract. ASPs have to provide the service securely, host and

support a number of clients and maintain any customisations and interfaces. All these costs are inevitably passed on to the client in the monthly service charge.

Daniel Andres, Managing Director of IT/2 EMEA at Simcorp, has experienced a decline in interest in ASPs. He says: "We have seen the ASP market dry up over the past 12 months. The initial interest based on promises of lower costs has been reduced after understanding the full implications. I believe that if a company really wants to reduce costs, the only solution is to reduce staff and outsource the treasury organisation to a third party with all its other advantages and disadvantages."

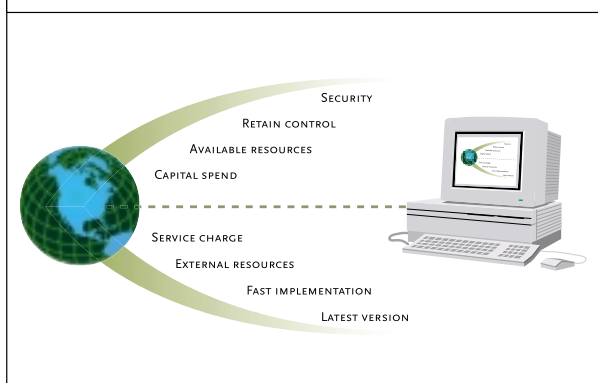
**LACK OF RESOURCES.** Many companies believe that they do not have the internal resources to support the implementation of a complex treasury system. For them, the option to have access to a treasury system that is hosted and supported by a third party is highly attractive.

However, most treasury systems, once they have been properly implemented and tested, require little ongoing support, apart from some occasional database management activities and periodic upgrades. Indeed, one database analyst working for a multinational described the treasury system database as a "dot" in comparison to those for other applications used within the group. As long as the technology selected for the system is compatible with the group's IT standards there should be sufficient resources internally, or at the IT outsourcer, to support the system.

**FASTER IMPLEMENTATION.** Another frequently cited reason for choosing an ASP is that it is faster to implement than installing a system in-house, as the software is already installed on the ASP's server and maintained by trained support staff. A new client is relatively easy to set up from the ASP's offices, avoiding the need to install software on-site and the system configuration is reduced, as the instruments and workflows are already set up for existing users. In reality the implementation of a treasury system primarily involves configuring and testing the system, along with training the users. The actual implementation of the software is a relatively small task in the overall process.

## spotlight TREASURY OPERATIONS

**FIGURE 1**  
ASP SOLUTION VERSUS IN-HOUSE SYSTEM.



There is no such thing as a 'standard treasury', so even with a simple treasury, the system will need some configuration and users will require the same amount of training whether the system is installed in-house or hosted by an ASP. Non-standard reports and interfaces to the client's banking systems and general ledger will need to be developed. In many cases, the implementation of an ASP solution is not as quick or as simple as it initially appears.

**DEDICATED SUPPORT.** The system is hosted and maintained by the ASP provider. All future product releases and/or versions will be installed by the host, ensuring that clients enjoy the benefits of all new system developments on a timely basis. Additionally, interfaces to bank systems are maintained by the ASP for any changes in format initiated by the banks.

As previously mentioned, the ongoing support for treasury systems should be minimal if the system has been properly implemented and tested. With respect to upgrades, treasurers are often reluctant to take each upgrade as it is released because of the risk of destabilising a working set-up and the time required to become familiar with new features. They prefer to stay with the current version, unless there is critical new functionality or 'bug fixes' included in the latest release.

**DISASTER RECOVERY.** The ASP will have a dedicated 'hot site' and the necessary infrastructure in place to react quickly and efficiently to a 'disaster'. A treasury system is generally considered to be a critical application and the treasurer needs to ensure that the system is quickly available after a disaster.

While this is a valid benefit, most companies now have their own company-wide disaster recovery plans in place and the incorporation of the treasury system and processes into the plan does not present a major obstacle.

### CLIENT'S PERSPECTIVES.

The realisation of benefits is not the only consideration in looking at the ASP route. For an ASP solution to be viable, the treasurer must be confident about the security and technology on offer and the viability of the ASP itself.

**SECURITY.** Perhaps the major concern for the treasurer is security. Treasury data is, by its very nature, highly sensitive, and treasurers are wary of the information being held by a third party, especially

when that third party allows other users access to the same suite of software. Clearly, security rights and access controls can mitigate this risk, but many treasurers remain unconvinced. Wherever there are external interfaces there is a threat of unauthorised access and a risk to confidentiality.

**TECHNOLOGY.** There is a perception that the technology to provide an ASP service is not sufficiently developed to make an ASP a viable solution. The performance of the internet and the speed of communications are concerns to the treasurer who typically requires fast and continual access to the system throughout the working day.

Ken Lillie, Head of Marketing at SunGard Treasury Systems doesn't see technology as a barrier. He says: "We have a strong ASP offering and can provide a viable one-stop solution to our clients. However, we don't see a great appetite for an ASP solution in the UK and European markets. There is probably more potential for growth in the treasury outsourcing business."

**VIABILITY OF ASP.** The treasurer is wholly dependent on the quality of service provided by the ASP host. The client can perform a due diligence exercise during the selection process, but the provision of service is ultimately outside treasury's control. If the ASP were to fold then the treasurer could potentially lose access to the system and data overnight. This is in contrast to the collapse of the treasury system supplier, where the client will at least have a working version of the software available in the short term.

### WHERE DOES THIS LEAVE THE ASP MARKET?

There are a number of companies which have decided to choose an ASP solution rather than implement a system in-house. Kevin Grant, Director of Business Development at Richmond Software, says: "Our TreasuryPortal service has attracted a lot of recent interest from companies and we expect this area of our business to continue to grow".

Grant believes it is not accurate to talk about treasury outsourcing succeeding the ASP model, rather it is an alternative approach to implementation for customers to consider.

**THE WAY FORWARD.** Ironically, the biggest threat to the ASP model has come from the treasury outsourcing market. The technology that made the ASP model viable has progressed to make treasury outsourcing the next logical step. As Les Halpin, CEO of Integrity Treasury Solutions, forecasts: "Looking ahead, the expected growth of treasury outsourcing will outstrip demand for ASP solutions. If outsourcers can make implementations quicker and easier then they will offer a more complete package than an ASP ever can."

As a final thought, perhaps the recent trend towards straight-through processing offers another solution. Companies are now able to take advantage of the systems and services offered by treasury system suppliers, banks and on-line dealing exchanges to 'outsource' their processing to technology. With straight-through processing from deal identification, through to settlement, accounting and reporting, the real savings may arise from using systems more effectively, rather than from relocating applications or outsourcing processes to a third party.

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