

# Is your IT up to the job?



**KEN LILLIE** EXAMINES THE MAIN ISSUES THAT CONCERN TREASURERS ABOUT TECHNOLOGY APPLICATIONS.

The small cheer generated by the upward revision of the GDP growth figure for last year's final quarter makes little difference to the fraught financial world of the treasurer.

Business conditions remain tough for most corporate sectors and many charities and other not-for-profit organisations are feeling the pressure on income streams through a reduction in giving.

Financial seas as rough as these create additional challenges for treasurers, who need to identify and manage perhaps a greater level of risk than normal while carefully husbanding cash resources and funding lines. These additional responsibilities are also likely to come alongside a reduced operational budget with pressures on staffing levels and department expenditure. The technology employed within treasury therefore must be up to task for the treasurer to meet these greater challenges in the most efficient and cost-effective manner.

The identification and management of risk arising from the potential adverse movements in interest rates and foreign exchange rates is bread and butter to most treasurers, but possible damage to the business can be far more severe when trading conditions are difficult and margins are down. And counterparty risk – one that many treasurers have in the past paid only passing attention to – has moved quickly to the foreground, with doubts and concerns over the financial viability of banks and other trading partners. Figure 1 on page 41 summarises the position.

**CASH MANAGEMENT.** The difficulties of maintaining existing funding lines and obtaining new funding and sources of funding increase the business pressure. There is a sharper need to identify all available cash within the business group and to maximise the use of that cash. Increased accuracy and timeliness of cashflow forecasting helps business planning and strategy; misinformation merely produces an additional risk to the business as planning becomes faulty, funding strategies are squeezed and confidence in the business evaporates.

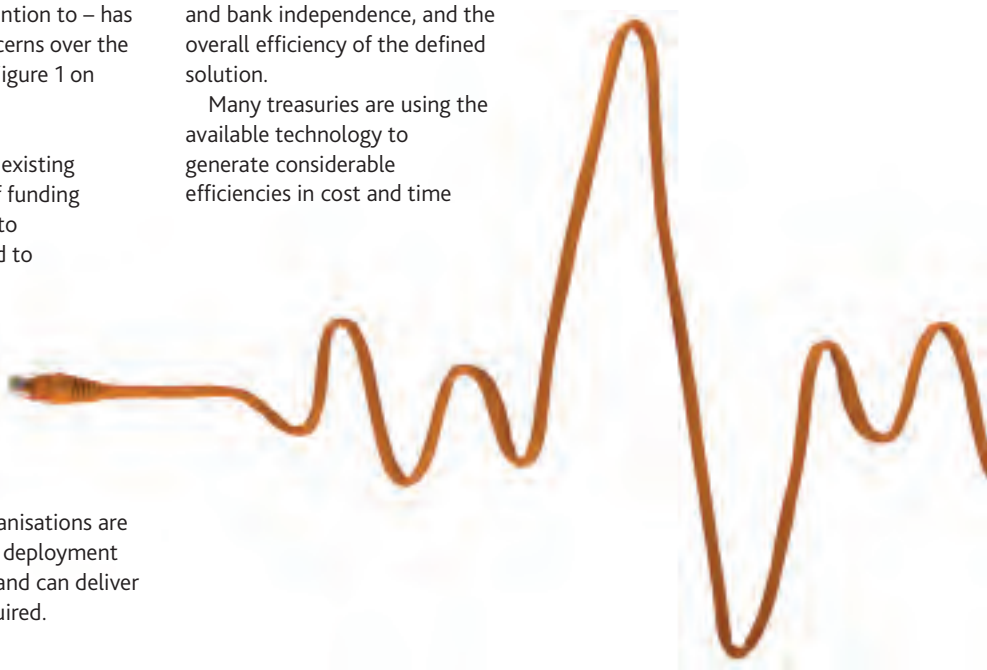
These additional demands and constraints placed on the treasury operating environment can put pressure on the way that technology is used. Many organisations are finding it expedient to review their existing technology deployment to ensure it is being applied to its maximum potential and can deliver the control, management, reporting and efficiency required.

An essential element of efficiency in process and reporting is the correct application of systems to ensure secure integration and the elimination of manual tasks wherever possible. Many treasurers still use systems that were originally sound but, over the course of time and with the increased demands now placed on them, may now be found wanting. Workarounds may have been implemented in the form of home-built extras or the acquisition of third-party systems, perhaps on a piecemeal basis and without proper integration or planning.

The processes surrounding daily cash management are a good example of this need as treasurers seek a speedy way to pull together an accurate position from a number of banks, including data from the business, and to push treasury payments out into the banking system. The technology to achieve this is available from a variety of sources including the banks themselves, SWIFT for Corporates, SWIFT bureaus and treasury management system (TMS). At the centre of the structure will be the TMS or a specialist cash management system as illustrated in Figure 2 on page 41.

Although treasurers would be seeking straight-through processing (STP) for this activity to ensure control and security, there may still be issues to address regarding the existing structure or the proposed solution. For example, not all banking systems can interface directly into a TMS and the specific details should be checked with both bank and TMS suppliers before any purchasing decision is made. An option frequently applied is to use one relationship bank to act as the system gateway to the others, thereby delivering an effective way of streamlining the activity. Treasurers would be prudent to compare all the available options and to consider cost, security, policies where relevant regarding bank relationships and bank independence, and the overall efficiency of the defined solution.

Many treasuries are using the available technology to generate considerable efficiencies in cost and time



# operations and controls

## TECHNOLOGY

through the application of payments factories and a multilateral netting structure. Payments factory technology has evolved to provide some tidy solutions and deliver benefits such as:

- centralised, secure payments processing in a shared service environment;
- the avoidance of multiple local bank terminals and relationships;
- minimised transaction costs through consolidation;
- minimised cross-border activity; and
- a supplement to in-house bank and multilateral netting activity.

**CASH FORECASTING.** Cash forecasting is a fundamental aspect of treasury management. Its deployment may depend on the nature of the business and its success on the accuracy and timeliness of the data. The consolidation of spreadsheets from across a group of companies is a laborious, time-consuming and potentially error-prone task. If the forecasts prove unreliable, cash planning goes awry and liquidity gaps occur, generating pressure on funding plans and a potential reduction in confidence in the business from investors, analysts and providers of credit.

To sharpen accuracy and increase reliability and efficiency, many treasuries employ a TMS or specialist cash management system to standardise forecasts group-wide and bring in a reliable consolidated position with the desired accuracy.

The forecasting at business unit level is only as good as the data input and the ability of those responsible, but the advantage of using the web-based interface of a TMS is the ability to interrogate and drill down into the data supplied and analyse the forecasting performance over a period of time, comparing forecast with actual. This enables treasury to combine an interactive and educational role with the errant business units by applying pressure where required to improve forecasting performance, as shown in Figure 3.

There is an increasing take-up of multibank dealing systems as part of the STP environment. Initially, the attraction appeared to be for companies with a high turnover of foreign exchange transactions. But the ability to obtain competitive bids online in a secure environment with a direct link to the TMS and electronic confirmation matching has greatly widened the appeal and multibank dealing systems are now seen as a standard part of the STP process.

**DRIVERS FOR CHANGE IN TECHNOLOGY.** There are other concerns driving the need to review and change technology within treasury. Hedge accounting remains a major issue as a number of companies that had perhaps originally postponed its application now look to resolve the problem. The good news for them is that the leading TMS suppliers have improved their systems in this area to provide the flexibility of

definition required; the specialist suppliers of hedge accounting technology also increase the options in the market.

The need for increased security and control and related reporting surrounding good corporate governance remain prominent in every organisation. Other drivers for reviewing treasury technology are:

- increased need for risk management tools;
- need for complete, accurate and timely cash/treasury information;
- current struggles with legacy software in treasury;
- development within corporate treasury caused by acquisition, expansion and changing corporate structure; and
- new senior management with new ideals and a new broom.

**SOLUTION DELIVERY.** The treasurer has various ways to achieve the required functionality through technology. Enterprise resource planning (ERP) and TMS offer the corporate holistic approach or the treasury specialist solution. Both routes are viable if the company is using the particular ERP in question but they should be compared for functionality and technical fit side by side in a full assessment. Some TMS suppliers are widening their own solutions across the financial area to offer a complete "collaborative" solution.

Some financial software suppliers provide specialist solutions in the field of cash management that may be interfaced to an existing TMS or run independently, depending on the work they do. They may be built around the provision of multilateral netting, cash forecasting and consolidation or general cash management, and some banks are moving into this field with solutions for corporate customers.

Some TMS suppliers are offering a software as a service (SaaS) solution, which is typically a version or a development of a core product available over the web and packaged through partnerships with interfaces to the peripheral software required – for example, multi-bank dealing portal, bank connectivity and confirmation matching. A further alternative to the traditional licensing model of installing the software on hardware at the customer's premises is for the TMS supplier or an agreed third party to host the software. Both the hosted and the SaaS options remove the issue of in-house IT maintenance and support.

The exponential development of technology available to the treasurer has provided a great opportunity and in many cases an increasing number of options for achieving the goals that may be set following a thorough systems review. But to optimise the potential benefits it is essential to define the requirements carefully and examine those options and possible pitfalls fully before moving ahead.

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Figure 1: How the financial crisis drives treasury needs

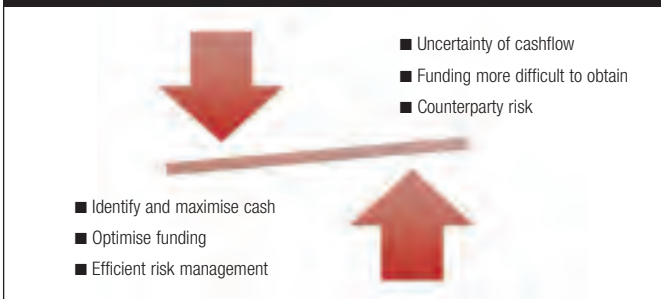


Figure 2: Daily cash management

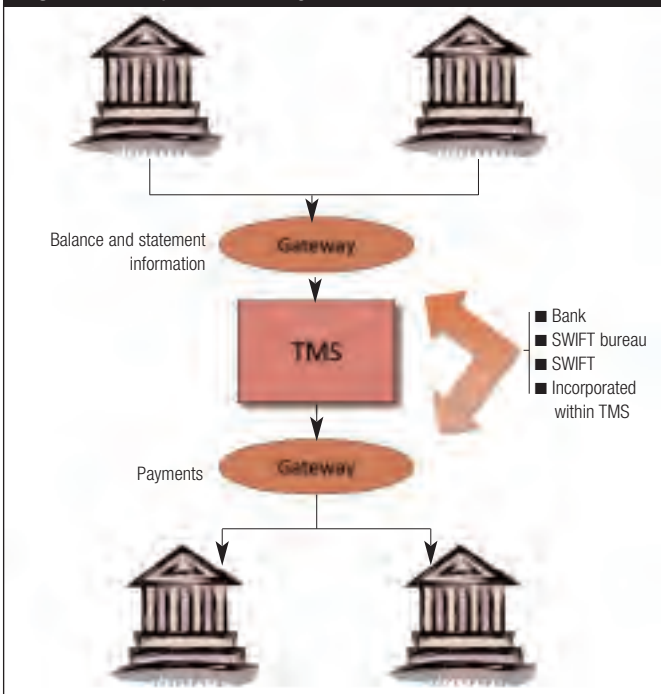
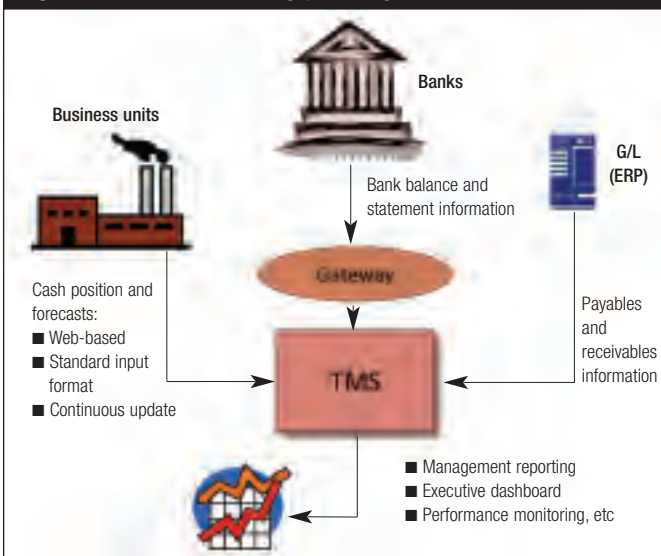


Figure 3: Cash forecasting/planning



## Essential Events and Conferences from the ACT

### ACT ANNUAL CONFERENCE

Shaping the future  
27-28 April 2010, Manchester

The ACT Annual Conference is our flagship event bringing together treasury, risk and corporate finance professionals from across the UK, Europe and the rest of the world.

The two-day conference and exhibition provides many networking opportunities, essential treasury updates from high level speakers and an exciting exhibition hall which features over 50 leading treasury product and service providers.

### THE TREASURY PROFESSIONAL

■ *talkingtreasury* Abu Dhabi  
10 April 2010, Abu Dhabi

Sponsored by HSBC

This half day thought-leadership forum will focus on the latest challenges facing treasurers in the region including:

- cash management and payment processes
- financial reporting
- corporate governance
- alternative funding

### THE TREASURY PROFESSIONAL

■ Qatar Treasury Update  
ACT Middle East breakfast briefing  
12 May 2010, Doha

This is the first ACT Middle East networking event to be held in Qatar where practitioners in the region will discuss:

- key challenges facing treasurers
- how the current economic climate is impacting the treasurer
- treasury expertise and best practice for the Middle East

### ACT ANNUAL DINNER

10 November 2010, London

The ACT Annual Dinner is the perfect occasion to meet your colleagues and peers from within corporate treasury, banking and financial services.

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