

ASPs: paving the way for better business

With an ASP, treasurers of the future will be able to manage the firm's finances in real-time through a single interface. Mike Whitaker of Reuters looks ahead

Predicting the future has always been a risky but necessary activity in the world of commerce. The difficulties of such a task are compounded when we try to predict the future of a dynamic field such as the corporate treasury market. With the role of the corporate treasurer and the technology they use to fulfil that role changing rapidly, can we really say anything definitive about the corporate treasury of tomorrow?

The answer, perhaps surprisingly, is yes – as I hope to demonstrate in this article. Perhaps it's best to start by sketching out a schematic picture of what the treasury function in a typical corporate treasury actually does.

Of course, details will vary from one company to the next. Many of these differences will be geographical, reflecting local business cultures and practices or specific national laws regulating corporate activity.

Other differences revolve around size. Larger firms are moving towards treating the treasury as a profit centre, running it in much the same way as a trading floor within an investment bank. Medium-sized and smaller firms, however, tend to work with a more traditional model of the treasury as an enabler, an internal cashflow management service delivered to the rest of the company.

The precise organisation of the treasury can also vary. Most firms opt for a simple centralised treasury function, but companies with dispersed global operations might switch to a more complex 'hub and spoke' model, whereby local offices deal with the treasury through regional outposts.

Three channels

Despite these variations, the basic function of a corporate treasury remains reasonably constant.

All treasuries interact and transact along three channels:

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- they exchange information internally with the rest of the company;
- they request and receive data from external sources (such as market data feeds, or trade news journals); and
- they deal with financial institutions, usually banks.

Of course, each of these interactions is mediated via some type of channel. Some of these channels might be electronic, such as market data feeds, while others are more traditional – a telephone for dealing with banks, printed reports for senior management, faxes for incoming internal information. The corporate treasurer sits in the middle of



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these flows, typically supported by tools such as spreadsheets or database management systems.

The critical question is: what effect will the internet have on this schematic model treasury? Corporate treasury is a changing function that is becoming more pressured as organisations make greater demands for returns and have higher expectations. As a result, its internal organisation, how it goes about performing that function, will alter significantly. The key driver of this change is the emergence of the treasury systems application service provider (ASP) which supplements – and in some cases replaces – traditional internal treasury systems.

What is an ASP?

There has been a lot of talk about ASPs, much of which sheds more heat than light. So perhaps it's worth briefly expanding on what an ASP does and why industry observers consider it so important.

The typical corporate treasury is torn between two seemingly irreconcilable trends. There is a drive to manage and deliver its services evermore efficiently: processing cashflows more regularly, sourcing better quality external information, obtaining better prices from banks. Then there is pressure to become more cost efficient and avoid spending large sums of money on what is (for most corporates at any rate) a secondary administrative function.

In the past, different firms would have got together, weighed up these two forces and come to some kind of compromise between themselves: investing enough in systems to ensure the treasury could perform its function smoothly, but keeping systems sufficiently simple to avoid being crippled by software maintenance, training and costs of upgrading the system. But the emergence of the internet and associated

digital communications technologies enables a radically different solution that in many respects delivers the best of both worlds. In effect, the generic aspect of treasury systems can be outsourced to an external service provider, using the internet as a medium.

The cost of maintaining and upgrading internal software is done away with at a stroke – that is now the ASP's problem, not the client's.

More crucially, the treasury is freed from the burden of dealing with generic aspects of its day-to-day business, freeing up resources to focus on improving its service and performance. This allows the corporate treasury to evolve from an administratively challenged function to a more strategic role, acting as the central nervous system of the company, so to speak.

From post to e-mail

So how will the ASP slot into and affect current treasury organisations? Let's return to our schematic model and trace the likely future of each of the three channels we mentioned, starting with the two-way flow internal information flow that links the treasury to the rest of the company.

Historically, such information has tended to percolate slowly up a line hierarchy before reaching the treasury. For instance, a sales executive in a branch office would inform his or her manager of a new deal, who would in turn inform the treasury of an expected cashflow at an expected date.

New communications technologies allow these old-fashioned hierarchies to be compressed. Information can travel faster and more efficiently, in many cases moving directly from source to destination without time-consuming intermediary steps. A good example of this is the way internal postal systems have been replaced with internal e-mail systems.

It is now possible for treasury to have a much more up-to-date picture of the financial state of company at any point in time. Moreover, this information can include far more detail about prospective cashflows, enabling the treasury to take on a more active asset/liability management role. Not only does it present a more accurate picture of the present, it also reduces uncertainty in the future – which in turn opens up the possibility of more accurate and efficient dealings with banks: netting and hedg-

ing future foreign currency payments, for example.

The shift, therefore, is from the treasury as workhorse towards a forward-looking and actively intelligent model. Although it should be noted that this shift has many parallels with the rise of active risk management functions within investment banks.

Indeed, new corporate treasury technologies often make their initial appearance on bank trading floors, in much the same way as new road car technologies often first appear on Formula One race tracks.

From information to knowledge

Turning now to external data sources, we can see similar trends in action: more information at more regular intervals, a move towards real-time integrated digital information feeds. Industry news and financial market research will be relayed live over the internet, rather than appearing the next day in a newspaper.

Again, we can draw parallels with investment banks – the treasurer's external information needs begin to resemble those of a trading floor.

However, we should strike a note of caution here. Despite the utopian chatter of techno gurus, anyone working in the real world knows there is such a thing as too much information. In the past, information was a scarce commodity that treasurers had to actively seek out and pay significant sums for the privilege.

In the future, the problem is reversed: they will need to guard against being bombarded by irrelevant low-quality information, by picking and choosing exactly what they need from secure and trusted sources.

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This is where treasury ASPs can come into their own. The economies of scale provided by the outsourced model open up the potential for far more sophisticated filtering and information processing systems. In effect, the treasury no longer needs access to raw information – it can request knowledge instead. Rather than getting bogged down in repetitive and time-consuming data manipulation activities, the treasurer can receive its knowledge pre-digested, by instructing the ASP to deliver specific data in specific formats.

Moreover, the ASP model allows these formats to be reconfigured on the fly. We already see this on trading floors, where multiple dedicated screens are being replaced by graphically-rich interfaces that are easy to customise. Interest rates can be called up with a few mouse clicks, then dragged and dropped into a relevant spreadsheet.

The overall effect of this sudden profusion of tools and information will in turn trigger a shift of emphasis in the treasurer's relationship to external data: rather than being about obtaining information, the focus will be on using knowledge. ASPs will deal with the burden of converting information into knowledge, while treasurers can focus on tasks that actually add value in one way or another. In particular, the corporate treasury's educational role within the firm will be vastly increased.

The missing link: e-trading

A clearer picture of tomorrow's corporate treasury is now beginning to emerge. The chaos of multiple information channels, out-of-date information and barely integrated ad hoc spreadsheets and databases will recede.

This will be replaced by a cool, steady pulse of digital information, internal and external, filtered through the treasury ASP and presented to the client as useful knowledge. The treasurer's job will involve understanding and reacting to this knowledge, rather than simply pushing information between A and B.

But what about the third relationship, namely the dealings between treasuries and banks?

This is the final piece of the puzzle – and, arguably, the most radical and certain change of the lot. Moreover, the precise shape of this piece is still fuzzy: though nobody doubts that e-commerce will be the primary business medium of the future, the roller-coaster

fortunes of dotcom start-ups tell us that there is little consensus as to the detailed contours of this brave new world.

Certain rough outlines can be discerned through the mists, however. Treasuries will have the option to deal with far more banks – and those banks will compete fiercely for their custom. Rather than phoning up two or three financial institutions and haggling for the best price, treasurers will scan published quotes from multiple sources via a portal or on-line exchange of some description. It is then a matter of simply clicking on the best price – and even this could, in theory, be automated via auction mechanisms.

Of course, there is a long way to go before this vision becomes a reality. The most significant barrier is the lack of an infrastructure for credit information and a mechanism for checking credit limits. These are deep and complex technical problems, but they are not insuperable. The ubiquity of ATM machines shows that such infrastructures can be deployed if banks set their minds to it – and the rush towards e-commerce has certainly focused banks' minds on this task.

Where will the virtual market operate?

We can assume such a credit infrastructure will eventually evolve, but there are still unanswered questions. Who exactly will act as the 'shopping mall' that displays competing quotes from competing banks? Industry observers suggest three options:

- banks delivering these portals themselves;
- independent third-party portal services; and
- treasury systems' ASPs.

The first option is already appearing in specific areas. Many banks are attempting to attract business by offering electronic trading services to their clients, often equipped with value-added services such as risk and position analysis. However, these services are generally restricted to particular instruments: foreign exchange, or interest rate products, but not both.

Perhaps more seriously, bank-supplied e-finance systems offer only a partial solution to the corporate treasurer. Banks are unlikely to display their

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competitors' quotes on their service – and treasurers may be reluctant to reveal to one financial institution details of their dealings with a variety of others.

These issues have led some commentators to favour a scenario where independent bank-to-business portals provide a marketplace service, collating quotes on a variety of instruments from a variety of sellside institutions, then presenting that information to potential buyers, such as corporate treasurers and investment funds.

This model for e-finance certainly delivers an independent bank-neutral marketplace – but it involves a separation between deciding what trades should be made and actually executing those trades. The decision-making process will be undertaken using the firm's treasury information systems (internal and ASP-supplied), while the execution process will be mediated via the portal's website.

Some corporate treasuries may prefer such a model, but others may prefer to see closer links between their treasury information and trading systems. After all, the two functions are clearly linked

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on a business level – so why shouldn't the design of the systems reflect that?

This is where the treasury service ASP has a role to play. The ASP-delivered treasury service will already be managing internal cashflow data and external market data, as well as providing analytical and reporting capabilities to the corporate treasurer. A natural next step would be to provide access to the banks themselves via the ASP interface.

Moreover, it is in the best interests of budding portals to align themselves with treasury ASPs – their success rides on the amount of volume they are able to attract. Since every potential buyer will need a treasury system of some sort in order to decide what to buy, portals can use treasury ASPs as a sensible and straightforward means of promoting their markets.

The treasury ASP as a strategic partner

The big picture, therefore, is a single treasury service, delivered electronically to corporate treasuries, integrating position keeping, risk management, information management and e-trading functions under one roof. Rather than scuttling between disparate information channels or wasting time on mundane repetitive tasks, the corporate treasurer of the future will be able to manage the firm's finances in real-time through a single interface.

This, in turn, will enable corporate treasuries to take on a more strategic role within the company – actively managing the future, rather than reacting to past events.

The economies of scale offered by the ASP model create value for corporate treasuries, as development costs will be spread over the entire community of treasurers. But one business relationship will not be so easy to automate – that between the treasury and its chosen ASP.

Selecting the right service provider will be a critical decision, since the ASP will be far more of a strategic business partner than a traditional software vendor. Competition between ASPs will be fierce, but, ultimately, it will be the treasurer who benefits. ■

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Readers may also be interested in a previous article on ASPs by Anne Querée, The Treasurer, October 2000, p33