

# A question of delivery



## Executive summary

- ASP evaluation involves treasurers in a complex comparison of cost effectiveness against the perceived risks related to availability, performance and data security.
- The issue of outsourcing critical systems – and especially sensitive information – presents significant issues with respect to Sarbanes-Oxley compliance.

If a treasurer selects an application service provider (ASP) solution, to what extent does this decision diminish business continuity risk? To address this difficult question, a treasurer needs an understanding of the workings of typical ASP technology – and what that means in treasury reality. The decision to evaluate ASP is primarily to do with technology, so let's explore what this means for diligent treasury management.

An example of ASP delivery for an imaginary company is illustrated in *Figure 1*. ASP systems are run centrally on powerful application servers. The server provides the end-user interface for multiple ASP client companies, who communicate with the server through web browsers via internet information servers. Partitions in the application server are dedicated to each of a client company's concurrent users. Other partitions will be reserved for other client companies and their users. Similarly, the client company's treasury database will be segregated on a database server, which will be shared with some of the ASP provider's other clients.

Treasurers using the ASP treasury management system will, to some degree, be unaware of the technology delivering the functionality. If a technical problem occurs, they call the ASP provider, rather than their IT department, for resolution.

The ASP technology will be securely hosted, normally by a specialist or third-party hosting organisation. As a result, ASP deals are often tripartite – a consideration to factor into evaluations.

There are some obvious theoretical security and confidentiality concerns here for treasurers. Some consultants have pointed out that the whole issue of outsourcing critical systems – especially sensitive information – presents issues for Sarbanes-Oxley compliance. This matter is presently under debate, and the resolution uncertain. It is clear that prospective ASP users need to work with their advisers to perform and document rigorous testing on the data and processing security of their shortlisted suppliers. Prospective ASP users would also do well to consider ensuring they retain rights to their data after the ASP agreement has been terminated.

Treasuries are rightly concerned with the critical business continuity issues of backup, recovery and reliability and should get expert technologists – if necessary from external consultancies – to assess the level of redundancy. In this context, redundancy is a good thing as it means spare capacity can be deployed to keep systems running in the event of equipment failure. There is significant extra cost (and diminishing added value) in technology installations that approach the level of 100% reliability, and the actual investment of the vendor will be reflected in the cost of the service.

Other practical ASP issues that should be considered by treasurers, or referred to specialist consultants, include:

- Contractual system availability versus treasury policy;
- Alternative plan for continuity of operations if the ASP fails; and
- The availability of daily backups to manage catastrophic failure.

ASP system performance depends on a complex set of factors, including the technical setup of the servers, and the internet bandwidth between the treasurers and the hosted system. Use of the internet puts treasury into contention with uncontrollable numbers of other web users, and it is also vulnerable to problems with the internet service provider. Users can secure a more reliable level of service if they connect to the ASP via a virtual private network (VPN) – dedicated bandwidth and higher levels of performance may justify the expense if treasury operations are critical to the corporate bottom line.

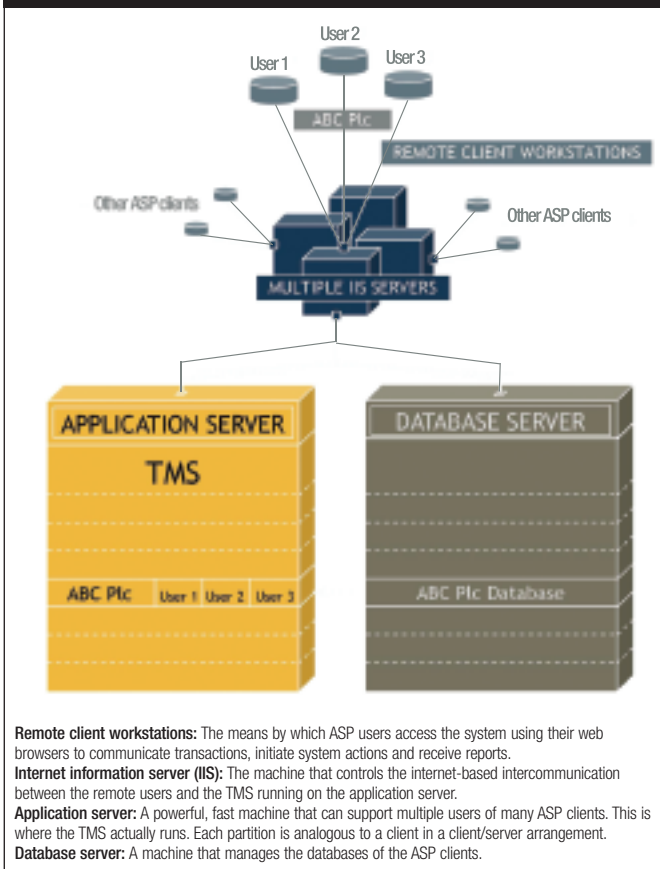
Treasury solutions today are expected to be both internally and externally integrated, so that the high level of control associated with straight-through processing (STP) can be achieved. Internal integration means that the front-, middle- and back-office functions of the system operate in a seamless workflow, with minimal manual intervention. External integration to third-party systems (banks, enterprise resource planning systems, in-house forecasting systems, electronic dealing platforms, electronic confirmation services and so on) is equally critical. Prospective users should investigate in detail how each ASP service handles external integration requirements similar to their own. In practice, multiple external integrations will



IN THE SECOND IN OUR TWO-PARTER ON APPLICATION SERVICE PROVIDERS, KELVIN WALTON EXAMINES THE IMPLICATIONS OF ASP FOR TREASURERS.



Figure 1: Generalised ASP technology



complicate (and possibly jeopardise) an implementation – and will certainly add to the time and expense needed.

**IS CHANGE A CONSTANT IN YOUR TREASURY?** Some years ago, treasurers heaved a collective sigh of relief when the euro and the millennium bug were (mostly) safely negotiated by the IT industry. But overcoming these hurdles did not signal any kind of end to the need for treasury systems to evolve in response to new requirements. There are many examples:

- The demands of Sarbanes-Oxley compliance continue to tighten, as auditors globally use the Act as the basis for requiring high standards of robustness and transparency in treasury;
- Hedge accounting still attracts significantly different interpretations from accounting companies, so that a high level of flexibility is required in systems that support IAS 39 and FAS 133; and
- The implementation of SEPA may require change to the cash management modules of treasury management systems.

In all cases, the necessary changes must be reflected in ASP solutions if they are to continue to fulfil client requirements. This need for development and change may not correspond with the stable business model that ASP vendors tend to favour. Unlike the euro conversion and the Y2K bug, Sarbanes-Oxley, hedge accounting and SEPA are not one-offs – all are evolving, and none is likely to be cancelled.

**SOME COMMERCIAL CONSIDERATIONS** ASP agreements tend to be simple compared with perpetual software licences. They bundle together the right for nominated users to utilise software modules, and provide technology hosting plus technical and application support. The key additional expense is a one-off charge for implementation, the size of which depends on the amount of client-specific work (particularly around reports and interfaces) needed. Treasuries with large numbers of interfaces to be coded, tested and supported may not be ideal candidates for ASP as the costs for a complete solution may be significant.

ASP licence fees tend to be paid in relatively small amounts at

relatively high frequencies, such as monthly and quarterly in advance. The contracts may not be cancellable during the initial term (such as three years). A range of renewal conditions may be negotiated, such as a cap on any increase in the ASP fee after a given time has elapsed.

ASP has a reputation for offering a cheap solution, but is it warranted? The pricing model may be suitable for a company that cannot or prefers not to make large capital expenditures. But over time, the client may end up paying more than it would have done to purchase a perpetual system licence – and will ultimately have no ownership rights. Also, some treasuries will incur heavy implementation costs, and if a company is growing and changing rapidly, further expenditure may be required to expand the ASP implementation to maintain efficiency.

Evaluators of ASP solutions should evaluate the likely cost over, say, a five-year time horizon, and benchmark the probable cost against alternatives.

**AND FINALLY** ASP offers a valuable technology delivery alternative for entry-level treasuries whose operations, commercial situation and probable growth path fulfil certain criteria. In such cases, a strong ASP solution provides a low-risk and comparatively swift route to implementing a robust treasury technology solution. However, treasuries whose complexities deviate significantly from this model may incur significant additional expense – and perhaps even project failure – if they take the wrong ASP route.

Kelvin Walton is Marketing Manager at IT2 Treasury Solutions.  
[Kelvin.Walton@it2tms.com](mailto:Kelvin.Walton@it2tms.com)  
[www.it2tms.com](http://www.it2tms.com)