

# GOING AGAINST THE CROWD



TREASURERS SEEM TO BE FIGHTING A LOSING BATTLE WHEN IT COMES TO COSTS, BUT **THOMAS BERGQVIST** OF TREMA SAYS TREASURY TECHNOLOGY SHOULD NOT BE ONE OF THEM.

It is not easy being a treasurer in today's environment. On the one hand, there is the pressure to downsize, cut costs and achieve greater efficiencies in treasury to mitigate the general downturn in the economy. On the other, the role of corporate treasury is changing from a profit centre, making money on taking risks, to a new role as a service centre, focusing on adding value to the business, including its subsidiaries. Also, regulatory demands have dramatically increased during the last few years, prompting global control of all financial activities. The IT infrastructure, however, generally remains fragmented on a global basis.

Subsequently, treasurers need a completely different IT infrastructure to support the new role, but at the same time are severely restricted by cost. There is only one way to solve this 'mission impossible' and that is to invest in the IT infrastructure that will deliver the desired cost efficiencies and control. To justify the investment, the treasurer needs to be able to quantify the benefits and show a high return on investment within a short payback period.

Sounds simple? Let's look at the principal drivers behind this change and outline the benefits justifying the investment. The principal drivers behind the need for change can be categorised into four different areas: regulatory demands, cost reduction, improved working capital management and IT strategy.

**REGULATORY DEMANDS.** Financial regulations and recommendations have recently become top priorities for corporate treasurers. These emerging regulations are prompting technological investment and development, yet treasurers are keen to ensure that these new technologies deliver both regulatory compliance and additional benefits. Unfortunately, there is little time to waste, as complex reporting standards such as FAS 133 and IAS 39 require that corporate treasuries implement the right technologies now to ensure compliance.

Another key regulation to consider is the Sarbanes-Oxley Act of 2002, which created an urgent demand for transparency. From the CFO's perspective, as the person responsible for authorising the company's financial statements, this is a particularly important driver, as the risk of criminal prosecution is too great to ignore.

## Case study

### Building a bank from within

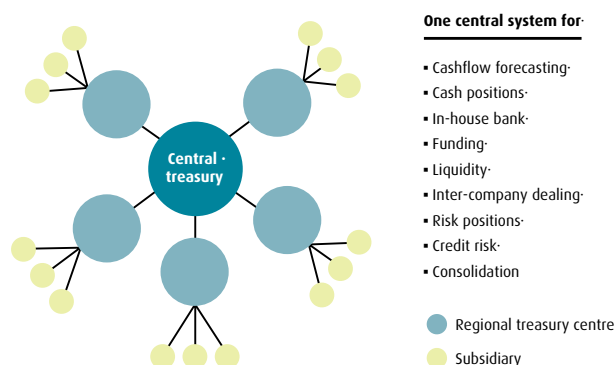
In-house banking models, as discussed in this article, extend considerable cost savings both in terms of reduced transaction costs and centralised financial transactions through treasury. The drive towards consolidation, coupled with the necessity of reducing cost and achieving economies of scale, has made the in-house banking model an attractive option for many large multinationals. Lucent Technologies provides a good example of this type of treasury re-engineering.

Lucent, a company renowned for its next-generational technology, recently adopted Trema Finance KIT in order to consolidate treasury information flows and establish an in-house banking model designed to reduce cost and improve operational efficiency.

The in-house banking model will allow the central treasury to act as an internal bank for the business units to reduce banking fees, minimise the number of external bank accounts and achieve a higher degree of bank independence.

Frederick Schacknies, Senior Treasury Manager at Lucent Technologies, says: "There are obvious initial benefits to be gained through a single technology platform and centralisation of financial transactions through treasury. In these challenging economic times, we are investing in more strategic initiatives that will have very real long-term benefits to our business."

FIGURE 1  
REAL-TIME GLOBAL VIEW.



Increasingly, treasurers are recognising that this transparency can most effectively be realised with the consolidated global view afforded by a single system.

**COST, COST, COST.** Treasurers also recognise the power of a fully integrated, truly global solution. A centralised treasury function enables treasuries to consolidate: cashflows, forecasting, cash positions, funding, liquidity, inter-company dealing, as well as market and credit risk. Similarly, it enables them to operate on the in-house banking model, which reduces banking transaction costs. For large multinationals, the goal is to implement technology that is cross-functional, as well as cross-regional, enabling an integrated, real-time global view (see *Figure 1*) and co-ordinated management of financial flows through central treasury. By operating on a time- and cost-efficient technological model, central treasuries are better able to add value to their subsidiaries and operate more like a shared service centre that manages the financial function on a company-wide basis.

**MAKING CAPITAL WORK.** Today's capital markets – including the banking community's adversity to lending money – have made it difficult for treasuries to access capital without a particularly high credit rating. With credit ratings falling because of high leverage and lower earnings, companies are increasingly squeezed for capital. This necessitates an improvement in the control and co-ordination of the company's global working capital and the subsequent consolidation of this function on a global basis. As capital markets show little sign of rapid improvement, the need for solutions that enable businesses to effectively manage working capital is paramount.

For those treasurers who introduce a global approach to working capital management, including global in-house banking, internal netting and centralised funding and investment, there are considerable cost savings to be realised. Reductions in the cost of capital, combined with reduced bank charges and other transaction costs, can be significant enough benefits to warrant the IT investment on their own. Also, there are benefits from greater forecasting of future funding needs and improved control over the company's working capital.

**STRATEGICALLY SPEAKING.** Prompted by their chief information officers (CIO), many companies are moving towards the consolidation of enterprise-wide operations into a single enterprise resource planning platform. This consolidated enterprise-wide system will enable companies to achieve greater transparency throughout the enterprise by creating a data warehouse model. Similarly, CIOs looking for the most cost-efficient technologies are increasingly opting for open source solutions such as Linux.

Treasury management system vendors face a certain challenge in providing a consolidated solution that is easily interfaced with other systems throughout the company to capture the overall global view of the organisation.

Deciding how to most effectively extend new systems to subsidiaries in the most efficient way is another critical concern. Technologies such as Citrix have previously been used to extend this technology to subsidiaries, but there is now an increasing demand for a single user interface to banks and central treasury via the internet. This enables users at the subsidiary level to access the treasury system using a web browser, rather than installing a separate application requiring new interfaces. Web-based technologies facilitate the straight-through processing (STP) of information transfers between treasury and subsidiary – extending operational efficiency and related time and cost savings.

Rolling out these systems to subsidiaries greatly increases the number of users working with the central treasury system. For a global multinational, this can mean an increase from about 40 users at the central treasury level to thousands of users worldwide. For this reason, central treasury technology must be highly scalable to accommodate any number of users.

Web-based technologies have enabled central treasuries to achieve two-way STP with subsidiaries. The next step is to expand this seamless connectivity further to the communication and information transfer that occurs as part of the company's banking relationships. Through advanced interfaces with their banking systems, companies are able to send payments, receive bank balances and engage in dealing – eliminating the need and cost for electronic banking products. This represents significant cost savings for the treasury and, similarly, this STP chain assists the treasury in achieving a greater degree of bank independence. Online access to the central treasury has only been recently realised and scalable solutions that address this need are not yet predominant in today's treasury systems market.

**VALUE ADDED STRATEGY.** Restricted IT budgets mean treasurers must invest strategically, rather than tactically. By adopting technologies that deliver consolidation, operational efficiency and longer-term cost savings, treasurers realise the return on investment that must exist to justify IT investment in today's market conditions. Substantial benefits are found in several areas, including transaction fees, banking charges and lower cost of capital, but also in staff reductions and lower IT costs for maintenance and interfacing.

Although there is no doubt that tough economic times affect the type and frequency of IT investment, there are considerable benefits to be realised for those treasurers that invest strategically in new technologies.

Thomas Bergqvist is Global Director of the Corporate Segment at Trema.

[thomas.bergqvist@trema.com](mailto:thomas.bergqvist@trema.com)  
[www.trema.com](http://www.trema.com)