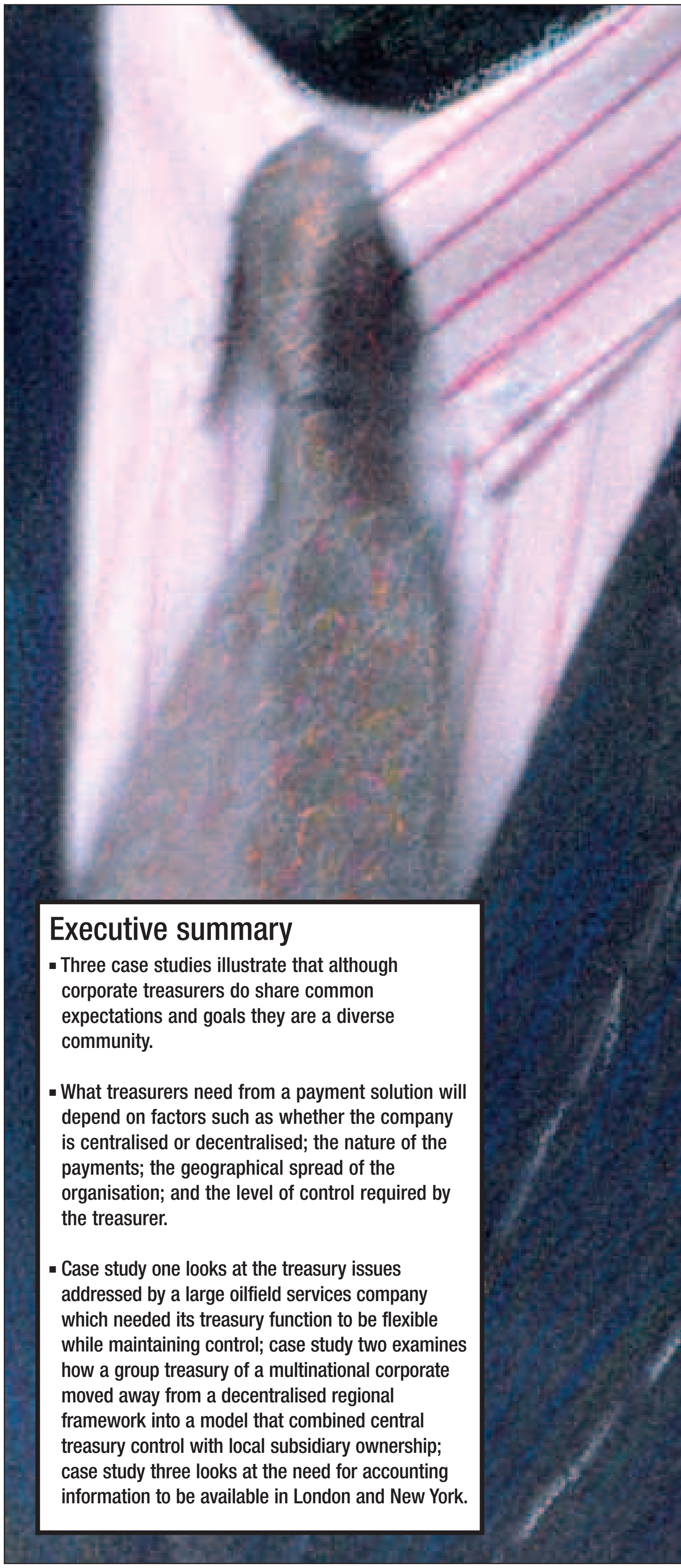
IAN CHITTICK LOOKS AT HOW A TREASURER'S INDIVIDUAL CIRCUMSTANCES CAN LEAD TO SELECTION OF DIFFERENT PAYMENT SOLUTIONS

The personal touch



A recent EU poster campaign promoting diversity in the workplace depicts an office staffed by crash test dummies to illustrate the tedium of working only with people exactly the same as ourselves. Some banks might like to treat all their customers uniformly but this approach has its limits. While treasurers may share common responsibilities and values, they have always been a very diverse community. As well as their own backgrounds and experiences, treasurers' priorities and decisions are influenced by their companies' size, geography, structure, industry sector and strategic aims. Using case study examples, this article looks at how a treasurer's individual circumstances can lead to selection of very different payment solutions.

Naturally, corporate treasurers do share some common expectations. They want payment technology that acts as a facilitator, not – as has been the case in the past – a barrier. Treasurers now expect 'open standards' to be applied and proprietary approaches kept to a minimum in order to allow for as much integration and interoperability as possible. High on any treasurer's wish list is the ability to increase processing efficiency, achieve high straight-through rates and enable control of who can make payments and when. Additionally, security, reliability, ease of implementation and good support are considered as prerequisites.

Common expectations notwithstanding, the huge amount of variables involved in the payments process must be weighed up at the outset of the system selection process. Whether the company is centralised or decentralised, what type of payments are being made, which countries are involved, and what level of control the treasurer desires, are just some of the variables that need careful consideration. Other factors such as the risk management policy of the company, which can affect use of the internet; the level of authority given to users, and the type of contingency put in place, are also crucial. Ultimately, any solution must be chosen based on the desired outcome of the technology implementation, as these case studies demonstrate.

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Executive summary

- Three case studies illustrate that although corporate treasurers do share common expectations and goals they are a diverse community.

- What treasurers need from a payment solution will depend on factors such as whether the company is centralised or decentralised; the nature of the payments; the geographical spread of the organisation; and the level of control required by the treasurer.

- Case study one looks at the treasury issues addressed by a large oilfield services company which needed its treasury function to be flexible while maintaining control; case study two examines how a group treasury of a multinational corporate moved away from a decentralised regional framework into a model that combined central treasury control with local subsidiary ownership; case study three looks at the need for accounting information to be available in London and New York.

Tailoring payments solutions to the treasurer's needs

Case Study 1: Workstation solution for a centrally controlled MNC treasury

A large oilfield services company employing more than 50,000 people worldwide had centralised its treasury, but still required reporting and payment capabilities allowing access to high-value cross-border payments for multiple banks and financial institutions for its regional subsidiaries. The treasury also wanted access to low-value payments in selected countries and suitable reporting on inter company loans. The company's internal bank already ran the majority of treasury functions on behalf of all subsidiaries, but data transfer was compromised by use of a mix of ERP systems across the firm. The bulk of payments from subsidiaries were controlled by the internal bank which netted currencies and books and maintained FX currency requirements of subsidiaries. The firm requires flexibility to meet all user/location requirements: for example, reporting capabilities for senior managers who are out of the office frequently.

The company has a centralised data centre managing user applications via Citrix, which enables organisations to provide access to server-based applications from a wide variety of client devices and platforms. An electronic banking workstation was installed on two Citrix servers. Each region has its own separate database so it remains totally independent. Payment initiation and information reporting modules were installed on each subsidiary database, and to allow control of payment flow, central treasury had a treasury management module installed as well as payments and reporting modules. Because each of the 10 installed databases had a central and local security administrator, each subsidiary can maintain its user access to functions – but overall control still resides with central treasury. By publishing the workstation as an application across the company's WAN (wide area network), it is accessible – and easily upgradable – by all entities. For those requiring access to reporting whilst travelling, the browser-based solution was used to complement the workstation capabilities.

Flexibility and control are the key strengths of this approach. Each subsidiary manages day-to-day payment activities using file import from their local ERP system into the workstation. Reporting flexibility allows the different entities to access the reporting functions they require whilst allowing them to interface with the different ERP systems. The subsidiaries can still enter single payments manually if required. Each location can control number of users involved, depending on amount and whether the payment is repetitive or free-format. All payments are released to a single back office created for the company. Using the treasury management module, central treasury can then download all subsidiaries' transactions and perform netting process and identify any FX currency requirements. By using the FX trading module, dealers can also buy/sell currency on-line to meet subsidiaries' needs. Central treasury releases payments to the bank and can create a single payments file containing both high value and low-value payments. All subsidiaries are able to schedule daily/intra-day downloads of their cash, balance and transaction reports and export data back into their local ERP system for further reconciliation. The central treasury also runs its inter-company loan reports using the data manipulation front-end capabilities of the workstation.

STRENGTH THROUGH DIVERSITY The demands of treasurers on their payment solutions have much in common. Visibility, flexibility and control are goals that all treasurers seek. The challenge is achieving these goals in a diverse and ever-changing world. Looking at these different situations, it is clear that the best solution is the one that takes the circumstances of the individual company into account. Corporate treasurers should look for flexibility and a bank provider that can tailor a solution to its needs. After all, treasurers are a diverse client base with vastly differing needs. The right solution will meet the performance, risk and cost needs, while the wrong solution will be an ill-fitting frustration.

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Case Study 2: Direct connection for a newly-centralised treasury

The group treasury of a multinational corporate wanted to move away from a decentralised regional framework into a model that combines central treasury control with a practical level of local subsidiary ownership. The objective was to optimise underlying payment execution through use of the most cost-effective clearing channel, plus flexible integration that both supported strategic technical direction and addressed key information delivery and transaction initiation requirements at subsidiary and group level. Priorities included rationalising cash account structures (including more effective liquidity management), consolidating cash processing providers and enhanced operating efficiency through increased process standardisation, control and automation. The changes were ambitious, especially considering the situation on the ground. Local entities had operated an array of technical couplings to local providers for domestic payments; payment data was integrated via file imports from various electronic banking platforms. In addition to prevalent use of fax for ad hoc payments, most electronic initiation channels required a degree of manual intervention. Underlying file interface formats had been translated from local ERP systems into both domestic payment format and bank proprietary structures.

From a transaction processing perspective, a mainframe file delivery connection was recommended as the best way of facilitating a centralised approach to integrating and executing the firm's cash flow needs on a regional basis. The client was not able to fully exploit the solution's underlying channel capabilities at first, so a minimal set of capabilities were agreed for rationalisation of local cash management operations for each subsidiary. Although the client was keen not to 'over-engineer' the initial integration solution (i.e. in respect of connecting individual subsidiaries), it was important to support a technical coupling approach that could be leveraged by the wider group with minimal incremental integration effort for each subsidiary.

Priority was given to identifying a bank conduit that could be shared across all entities that allowed entities to connect individually and with minimal effort. To further minimise technical disruption, each subsidiary was allowed to retain its existing ERP formats and other payment structures. Once they were ready to switch, local subsidiaries simply de-coupled from existing providers and directed existing files to the new payment solution. A major challenge for the central treasury was gaining acceptance that strategic change was needed and convincing units of the benefits at both local and regional levels. The key to managing local resistance and engendering support was the clear and practical distinction between 'control' and 'ownership'. The solution allowed the central treasury to achieve its control objectives by centralising key operating accounts (central treasury and subsidiaries) through one provider and, by consolidating its fragmented banking infrastructure with a single robust payment channel, contributed to a reduced cost base and unsurpassed levels of STP.

Subsidiaries retained local process ownership and technical disruption was kept to a minimum. The solution provided both the central treasury and local subsidiaries with economies that could only be secured by operating a cash management solution within a regional framework. In terms of longer-term strategy, the recommended payment solution opened up execution options that could not be provided by legacy domestic banks thereby positioning further opportunities around cost effective routing of payments.

Case Study 3: Web-based solution: sharing account data globally

A London-based media corporation with multiple subsidiaries in Europe wanted to provide broad access to the payments and reporting information of New York and London-based accounts held with its lead bank and local accounts with other banks, without the headaches of a major software installation. Today's web-based payment solutions can supply maximum visibility with minimal implementation effort, but not all deliver the same level of functionality.

Any application had to be easy to use since the company is widely dispersed, and has a small number of staff. With senior staff travelling frequently, the ability to approve high-value payments anytime anywhere was imperative, as were import/export capabilities that allow integration with the headquarters' accounting systems. The solution also needed multibank and multicurrency functionality to handle subsidiaries' local bank accounts; plus the ability to handle volumes of 3,000 payments per month at headquarters and 20-50 local payments per subsidiary. The application had to create payments with regulatory reporting information and usage of IBAN.

The chosen solution – a web-based integrated platform with modules for payments and reporting – provides end-users in London with access to all accounts, but each subsidiary can only see its own subset of accounts, including the multibank ones. London users schedule daily reports on all accounts, which they then export and reconcile with their SAP accounting system. For the main payment run, the London and New York users import files containing typically 1,000 transactions. The whole payment process is managed centrally but subsidiaries make weekly payments for their EUR accounts and 'free form' payments for others. All payments carry IBAN codes and are SWIFT compatible. The subsidiaries take payments to the 'input and approve' stage and release payments under $5,000; those over this figure are released by London.

Not only do web-based solutions avoid the problems of software installations, but all subsidiaries access automatically the latest version without having to involve IT support. In this case, creation of new users is simple and tailored to the specific users' needs, but controlled from London with a very quick turnaround time.