A financial conscience

LESLEY WHITE LOOKS AT HOW TREASURERS ARE NOW WORKING WITH THEIR BANKS TO MANAGE A WHOLE RANGE OF RISKS THAT ARE DRIVING THE EVOLUTION OF BANKING AND TREASURY SERVICES.

The financial crisis highlighted a multitude of risks that can threaten the very survival of a company. Today, with the experience of recent years all too vivid, corporates are acutely aware of the day-to-day risks they face and the importance of having appropriate processes in place to manage them.

This greater awareness has changed the way corporates manage not only their own operational risk, but also the way they work with banking partners to manage risk better. Corporates and banks alike are well aware of what a worst case scenario looks like, so the evolution of risk management processes and procedures is essential.

Banks are now working with their corporate treasury clients in new ways that help them better manage their risk across the whole gamut – the usual market, operational and credit risk factors as well as their own individual business risks.

The crisis also underlined the important role the treasurer plays in accessing and managing the cash of a company. Today, the treasurer is the "financial conscience" of a business and pivotal to ensuring that the focus on operational risk and the necessary practices and processes are relevant, efficient and effective. However a bank works with its treasurer, the common goal is to ensure that returns on company flows are maximised and performance is optimised to translate into revenue, and all in the most efficient and risk-free way.

Pre-crisis, risk management systems were often siloed, and what worked for one department did not necessarily work for another. As risk management has risen to the top of the agenda, senior executives have recognised that it makes sense for the treasurer not only to have overall management of all risk processes, but also a complete view of the risk position across the entire company.

OPERATIONAL RISK Operational risk management is now central to a corporate treasurer's role. Bringing information from every corner of the business at every level and holding it centrally is necessary to maintain an accurate view of where a company stands. Having robust and accurate, real-time data close to hand lets treasurers make carefully evaluated strategic decisions.

Clearly, operational risk is also influenced by external factors such as regulatory changes, legal frameworks, technical developments and fraud prevention. Solutions to mitigate operational risk must therefore accommodate these. Bank providers with expertise in these areas can help corporate treasurers leverage external know-how, self-certification and financial institutions' own risk management capabilities to develop best practices in managing, reducing and eliminating risk.

Since the financial crisis, everyone is much more aware of the people with whom they trade. While centralising processes is key to maintaining a complete view of a company's position, corporates may also seek to offset concentration and counterparty risk by spreading their business across several banking providers.

This is driving the evolution of transaction banking and treasury services towards integrated banking. To provide integrated worldwide solutions to meet cash management needs, centralise cashflow and rationalise banking relationships, corporates are increasingly using a global provider underpinned by local bank relationships. The need to divest counterparty risk away from one banking provider towards multiple banking relationships is creating an increasingly complex environment which tests efficiency while also increasing operational risk as the nexus of relationships spreads.

This provides the impetus for treasurers to use a global provider supported by local and/or regional bank providers where a single concentrated structure overlaid with services and capabilities can be deployed. One primary provider can gather information across regions and divisions and aggregate it centrally. This approach gives a client a holistic view of its banking relationships and needs to be built so that a single transaction can be integrated into the client's workflow before being processed and delivered back to the treasurer.

The challenge then for the treasurer is to ensure that the banking provider understands the nuances involved, and can work to reduce the operational risk component. This can be achieved by leveraging industry standards and bank interoperability to maintain the same visibility of information, access and transaction processing.

THE SEPA DEADLINE One external factor is the regulatory environment. For corporates, keeping up with regulatory change is a challenge. The Single Euro Payments Area (SEPA) has been on the agenda for some time, but with hard deadlines now set by regulators, corporates are feeling the pressure to move along the curve towards compliance. Countries such as Luxembourg and Slovenia have already moved from national low-value clearing for payments to Step 2 for SEPA, and Finland is following for ACH in October 2011. There is likely to be a scrum as whole processes have to be amended to accommodate the changes, and this will lead to a bottleneck demand for the right skills and know-how from providers.

Regardless of whether a corporate's processes are decentralised or centralised, now is the time to consider how the treasury department will look with the introduction of SEPA. A clear implementation plan and the urgency of adoption are critical issues as the closure of local clearing looms, with complete migration mandated for four years' time. Currently the European Commission has suggested SEPA end dates of 2012 for credit transfer and 2013 for direct debits, with grace periods that take both those instruments out to 2015.

As outlined earlier, a centralised view of a corporate's position that brings together multiple bank relationships is fundamental to improving operational risk management, aided by technological developments in payment hubs and shared service centres along with advances in bank interoperability standards.

It is critical to steer clients through the migration process and to help them understand the cost-benefit analysis of SEPA. However, the risk of fraudulent or unauthorised transactions can be reduced from an operational standpoint through transaction processing – for example, bank account management (BAM) and eBAM.

In a pre-SEPA landscape, corporates are frequently challenged by a lack of process standardisation, with bank accounts having to contend with large differences between banks, sometimes as a result of home country regulations which have different requirements or where integration processes in individual banks have differed. Combining paper and people can lead to unreliability, and increases the exposure of an organisation to operational risk and higher exposure to fraud.

Many companies lack a centralised repository for the bank accounts they hold and this challenge is exacerbated in corporations that have non-centralised treasury operations, where bank accounts may be managed at a branch or legal entity level but have no visibility at the corporate level. This creates the opportunity to automate and standardise the process and not only answers critics on the risk side, but also drives cost efficiencies.

Standardising the process and using technology to link it together makes operational risk less of an issue as eBAM facilitates electronic documentation delivery. This can be carried out using a digital signature which is automated and standardised, and so diminishes the opportunity for fraud to occur.

PUTTING WORKING CAPITAL TO WORK The continued focus on visibility and control of cash has provided the strategic imperative to ensure more effective management internally to pay down debt or to invest. To enhance capital management programmes and manage working capital more effectively, treasurers are increasingly implementing key performance indicators between the treasury function and the business.

These days, not only is smart application of a corporate's cash essential, but operational risk management extends to ensuring the adequate use of working capital, and starts with the timely movement of a company's goods. It is critical that a corporate understands its clients' different behaviours, and adapts payment processes accordingly in order to identify potential logistical flaws that have financial impact.

This is taking place when the pressure is on for treasurers to enhance the financial flows of the company to maximise performance. It goes without saying that the ability to process vanilla payments is a necessity, but what makes the difference to clients in today's market is the ability to provide the services and technology that enable clients to maximise their financial supply chain.

The data analytics and flow of information provided to a corporate will better equip it to manage business processes across multiple businesses or subsidiaries. Add this to the convergence of payment methods, processing cycles and technology optimisation, and corporates have a better understanding of their cashflows, run operations more efficiently – by knowing exactly when a payment has been received and the goods can be released – and reconcile effectively. Technology is also allowing all this to be reported more efficiently via internal processes or programmes within a corporate's enterprise resource planning (ERP) platform.

RETURN ON RELATIONSHIP With so many more facets impacting the risk spectrum, all of which the treasurer must understand and juggle, there is a greater need than ever to recognise the interrelationships between these elements. Every treasurer at every corporate has a different mix to contend with, depending on the culture and mission of the organisation and its business, which means that the bank provider must understand each individual business and the drivers of its needs.

But by sharing experiences and using a bank which has worked with clients' varying needs and scenarios over many years, the treasurer today can do the job effectively. A bank's perspective, itself cognisant of the regulatory landscape, can also provide solutions for more effective risk management. Not only this, but banks can offer insight and help to maximise industry best practices which they themselves have to adopt – this leads to tangible returns on the bank/client relationship.

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