CAN YOU RISK IT?

Thanks to the financial crisis, treasurers face more threats than ever before, but they have the software to manage them if they choose to use it, says Lesley Meall

There is bad news and there is good news. The financial crisis has made treasury management much tougher, but it has also pushed the treasury function up the corporate agenda.

"Becoming more important to the enterprise has been a mixed blessing for treasurers," observes Daniel Mayo, practice leader for financial services technology with analyst Ovum, and risk has increased as a key driver for the treasury function. "Cash liquidity and credit risk, counterparty risk, foreign exchange risk and sovereign risk have all increased," he says, as have the significance and nature of those risks. He adds that there have been consequences of affordable bank borrowing getting so scarce: "With the management of liquidity risk, for example, there has been a shift away from focusing on earnings from cash pools to the need to ensure that you have sufficient liquidity available when you need it."

Although managing risks has never been easy, it is getting easier, because of the accessibility and affordability of specialist software and systems. "The ability to get at technology, cost-effectively, is no longer just within the reach of top-tier companies. Even the smallest companies can now access online software tools or services from their banks," says Mayo. And, as in every other sphere of our personal and professional lives, this technology is getting smarter. So, whether you want to analyse the latest data about the financial performance of your banks, collect your forecasted currency and commodity exposures across the group and study the potential impact of eternal shocks, assess credit control information to guard against unexpected losses due to clients' business risks, or explore various other areas of risk, there is software that can help you do it more efficiently and effectively.

This can also be a mixed blessing because treasurers now face a smorgasbord of general purpose and specialist tools with the potential to help them analyse, forecast and manage the very many areas of risk they must now consider. The options include: treasury management systems (such as Reval and Misys), the risk management functionality and specialist add-ons offered by enterprise resource planning (ERP) systems (such as Oracle and SAP), plus an increasingly wide range of software tools and systems that variously describe themselves as analytics, business intelligence (BI), corporate performance management (CPM), enterprise performance management (EPM) and dashboards – and they are all progressively improving the analysis, reporting and visualisation features they offer.

Each type has strengths and weaknesses, and how appropriate their use is in any particular organisation will depend on myriad factors. But some types of software are proving more popular than others. "Corporate treasurers increasingly want more sophisticated tools that address pure risk management," says Mayo, who reports the strongest growth has been among integrated treasury and risk management systems. This is the route that Gil Choi, the global treasury chief information officer at DuPont, chose to gain global visibility into the chemical company's cash position and integrate liquidity and risk management. "Centralising our treasury operations and implementing SunGard's AvantGard Treasury Management solution gave us a real-time view into cash and risk across the organisation," he says.

"Providers of specialist treasury management systems have moved very strongly to provide risk functionality," comments Mayo. But the way in which you use the software you choose can also play a significant role in its success. At the Omnicom Group, a global marketing and communications specialist, the award-winning treasury team has used IBM Cognos Business Intelligence as the basis for all sorts of innovative and effective projects, including a number designed to improve internal and external cash management and reduce credit and counterparty risk. Using the BI tool with a global database of bank accounts and a daily feed of balance information has enabled Omnicom to rationalise bank accounts and bank numbers, reducing counterparty risks and the amount of cash outside the treasury centres.

Improving risk assessment

"A critical benefit is that we can manage and move funds so as to protect our principal," says Maeve Robinson, assistant treasurer, Omnicom. When the Greek credit crisis hit in early 2010, Omnicom was able to move millions to safe havens within hours. Omnicom's treasury has also used the BI software to reduce working capital and credit risk. Managers are provided with weekly reports on accounts receivables so that they can examine them for potential risks, which has reduced receivables ageing, improved cash flow and held down bad debt. An interface with a credit assessment tool enables managers to compare accounts receivable data with data on how much credit Omnicom has agreed to extend to each client, reducing exposure to client risk and the likelihood of unexpected losses.

But, despite so many different software-supported routes offering better monitoring, management and mitigation of various types of risk, there are still many treasury departments using software that actually exacerbates risk. "There is a general move away from spreadsheets, particularly in environments where treasury is being consolidated," reports Mayo, but their use remains widespread – even in organisations that have centralised and consolidated their treasury operations. "We all know that the spreadsheet isn't the most optimal approach to risk management, and it introduces enterprise risks in its own right." But it still gets widely used for risk analysis, especially at a local level, because, when they have a choice, people tend to favour the familiar and take the risk that somebody else's spreadsheets are the ones that will be full of errors.

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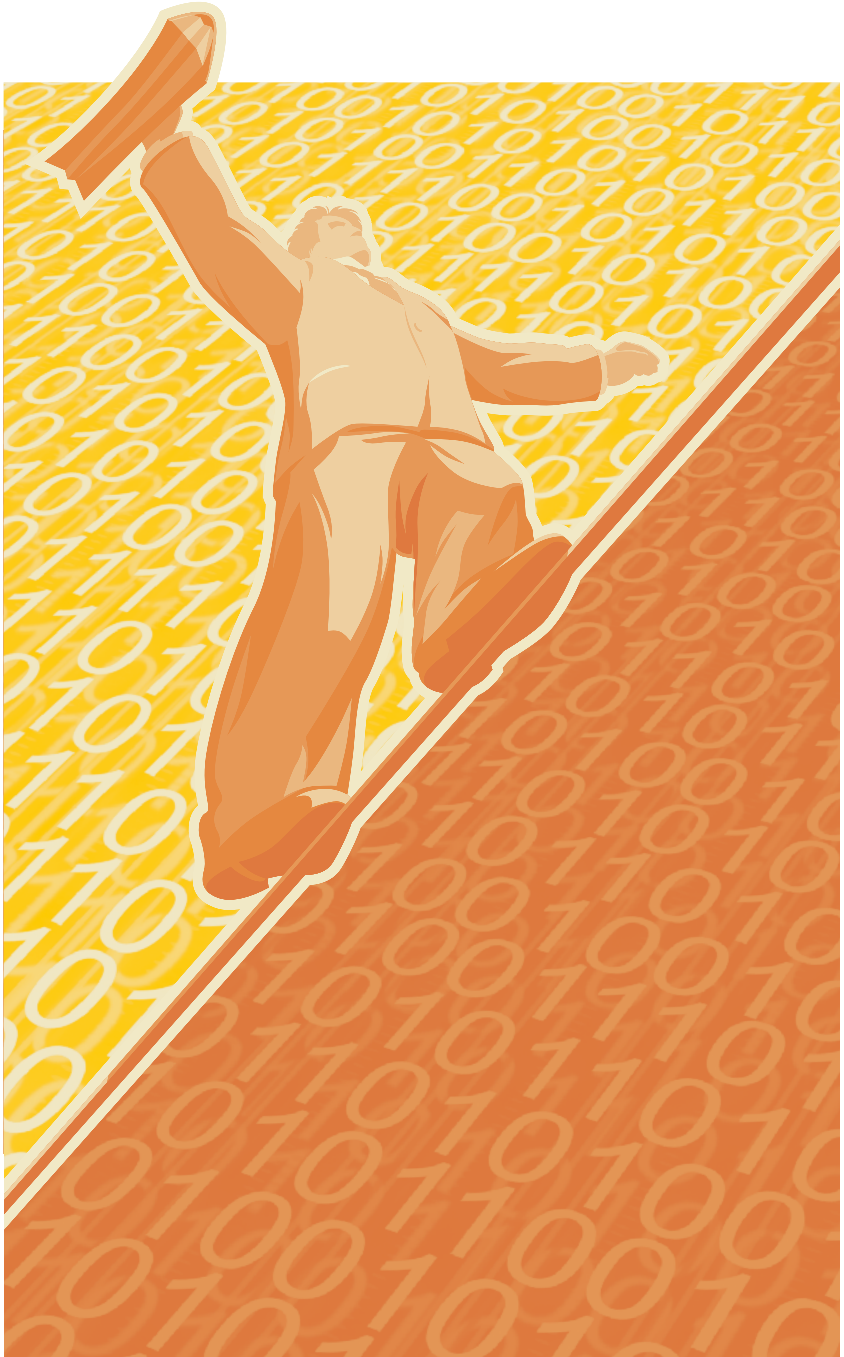

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BIG DATA BONANZA

Information technology professionals have long been justifiably fond of the phrase "rubbish in, rubbish out". But this 'truism' is less true today than it was because of 'big data' and the increasing accessibility and affordability of hardware infrastructure. "As the amount of data being generated is exploding, our ability to compute, our ability to analyse this data is also exploding," says Michael Chui, a principal with the McKinsey Global Institute. (He leads research on the impact of IT and innovation on business, the economy and society.) This presents enormous potential for treasury.

The proliferation of barcodes, phone signals, transactional databases, social data, video clips and 'exhaust data' of all sorts of systems connected to the internet, may seem like white noise, but software is making it increasingly easy to mine this for useful information. Reporting tools can automate, aggregate, summarise and filter data and present it using dashboards and other graphics, so that trends, totals and ratios can be seen at a glance.

A 'treasurer's dashboard' could use myriad sources of data (inside and outside the enterprise) to instantly draw your attention to all sorts of developments. As well as doing some of the heavy data processing on your behalf, reporting software is now smart enough to help you reduce risk by making quicker and better informed decisions on banks, counterparties, hedging partners and trading partners.

Instead of daily reports based on static data, you can have charts and graphs based on real-time data, reflecting all aspects of your treasury operation from cash flow to counterparty risk via FX exposure. Next time Twitter activity indicates civil unrest brewing on the streets of a foreign city, the figures on your company's exposure to that country's debt could be at your fingertips.