

# Survival of the fittest



RECENT ACQUISITIONS BY ONE OF THE BIGGEST TREASURY MANAGEMENT SYSTEMS SUPPLIERS SUGGEST THAT NICHE PLAYERS COULD STRUGGLE TO SURVIVE, REPORTS **GRAHAM BUCK**.

The treasury management systems (TMS) market witnessed a burst of activity this summer. Wall Street Systems – one of the market's three main global players, alongside SunGard and IT2 Treasury Solutions – made headlines with two back-to-back acquisitions.

Wall Street beefed up its presence in the fast-growing eBAM (electronic bank account management) sector by acquiring US specialist Speranza Systems. Speranza's technology will be integrated into the Wallstreet Suite and Wallstreet Treasury products, which cater for major multinationals and central banks and for SMEs respectively.

The deal was only just being digested when the group unveiled a further acquisition; this time corporate treasury specialist City Financials was the target. The latter's corporate treasury business, which includes more than 50 major multinationals, will also be absorbed and offered as a bridge between Wall Street's two main offerings.

City Financials' own eTC treasury workstation will be offered by Wall Street as software installed at the client's site or as software-as-a service (SaaS).

An industry analyst describes both Speranza and City Financials as "entrepreneurial startups" that represent timely acquisitions for Wall Street. While it remains to be seen whether SunGard and IT2 will respond with acquisitions of their own, it seems likely that the TMS market will witness further consolidation over the coming months.

"While there is still a huge disparity in countries such as Germany, the global solutions market is becoming a narrower space and the niche players are being squeezed as a result," suggests Wall Street's managing director Paul Wheeler. "People are making more global decisions, so global technology solutions have developed in response. The mid to high-end corporates are demanding global visibility, which poses a challenge for tech companies working only in regional markets."

Over at SunGard, Paul Bramwell, senior vice-president of treasury solution, expresses surprise that the financial crisis has so far claimed only a limited number of vendors as casualties. He believes that more can be avoided only if M&A activity in the sector continues.

**TIME TO WORRY?** Should corporate treasurers be concerned by this outlook? Vinod Parmar, group treasurer for Ladbroke's, admits to some unease at the level and pace of M&A activity, eased to some extent by the variety of product and service offerings now available from the main providers. He says: "From the customers' viewpoint, less competition doesn't bode well for pricing, though. It reduces your negotiating power, and can also be detrimental for innovation

due to lack of competitive tension. On a more positive note, you do have stronger organisations supporting you, which is a major consideration when you're buying into a system long term."

Ladbroke's adopted a new TMS in 2008, moving from SunGard's AvantGard Quantum to IT2. As Parmar notes, the separation of the group's Hilton hotels division not only changed its focus to betting but also both its treasury team and treasury requirements. Parma says: "In the boardroom, treasury has achieved a much greater profile, and cash forecasting in particular is now much more important."

His comment is echoed by Kevin Grant, chief executive officer of IT2. Grant says that treasurers have moved from the back-room to the front-office and enjoy much more of a public role at the top.

"They are now asked both to demonstrate and explain information that benefits from having technology behind it," he says. "It's all about greater visibility of cash and managing various types of financial risk. More companies are probably now better covered than before for their FX exposures, so they are looking to their TMS for other benefits, such as improved visibility of cash and even improving their credit status. Best practice is to measure your cash effectively and to maximum effect before you start borrowing."

Grant also agrees that cash forecasting is continuing to grow in importance – a trend confirmed by IT2's recent survey of its North American clients. US treasuries have until now continued to rely on spreadsheets but are finally overcoming a traditional reluctance to employ web technology and integrated forecasting.

**EBAM BOOST** The other major development will be an accelerated take-up of eBAM. The growth of eBAM was hampered until quite recently as it was extremely labour-intensive. This changed in July 2009 after SWIFT amended its rules to allow all companies to participate in SWIFTNet, which enabled the introduction of BAM message types to improve efficiency, cash visibility and risk management. Earlier this summer, SWIFT announced the live release of its eBAM messaging standard. "You can get both transparency and security of your bank accounts, so integrated eBAM is set to become the norm over the next couple of years," says Grant.

At Wall Street, Wheeler says the Speranza acquisition was a logical development following a two-year partnership that saw the company complete much of the pilot work for eBAM and devise collaboration standards. "eBAM has two basic sides: banking and corporate," he explains. "Traditionally it proved a challenge for both to manage what was a labour-intensive process that remained unautomated due

to the absence of a common standard. Speranza recognised the need for a robust engine and secured an electronic mandate through its agreement with SWIFT."

However, Wheeler adds that banks have been slower than corporates in taking up opportunities presented by eBAM – often because their back-office systems lack the ability to process eBAM messages. More will now start adopting eBAM strategies, in turn encouraging more corporates to invest in the necessary technology.

"Some people may not regard eBAM as a high-value acquisition at the outset, but then find the increasing pressures of compliance make it an attractive proposition as a lot of work can be transferred to eBAM," adds Wheeler. "Until now, junior treasurers have spent too much time involved in bank management work rather than treasury work. This created a steady trickle of interest, but we're now seeing more clients keen to adopt eBAM, with the SWIFT element key to its development."

Wheeler suggests companies that find their bank ill equipped to receive eBAM messaging quickly and effectively should regard it as a problem for the bank to solve. A survey of corporate treasurers carried out last year by Finextra emphasised the need for them to get up to speed on eBAM; almost half of the respondents said they were ready to switch bank to gain improved service, standardisation and automation through eBAM processes.

"Banks are waking up and realising that they need the technology to receive electronically, so that they can, in turn, deploy it back to their corporate clients," says Wheeler. "Recent M&A activity has helped this process."

**EXTRA TREASURY TOOLS** SunGard's Bramwell says that the financial crisis has increased the workload, while recession has seen senior individuals at the high end of the market looking at long-term strategies and mid-tier companies consolidating their treasury operations and seeking to accomplish more with fewer people and only limited IT support. At the same time, tasks such as management of balance sheet exposures have grown in complexity, so the group has focused on developing tools that assist treasurers in synchronising and managing their various tasks.

"Treasury is incredibly complex and both compliance and accounting requirements are constantly changing," says Bramwell. "Our mantra is that we sometimes partner with other companies in areas such as balance sheet management. We use the tools that are available."

This policy has seen SunGard forge relationships with banks, FX platforms, credit data providers, collection agencies, money market funds and SWIFT, among others. Last October, the group announced the launch of a technology infrastructure to link all of the various participants. AvantGard's Echos (EcoSystem Communication Service) is described as "a single point of connectivity to help facilitate communications for bank account statements, wire transfers, accounts payable payment execution (including various formats such as SWIFT) and cheque printing via a global payments network contained within the service."

The Echos service also manages deal confirmations and matching (ACCORD), eBAM, bank fee reporting (TWIST) and mutual fund reporting. "It sorts out the various things that are difficult to achieve by removing friction and making it

easier to identify the key elements," adds Bramwell.

So further change can be expected over the coming months. At Wall Street, Wheeler says the group is already different in its approach of a few years back, with a greater focus on its existing client base and increased importance for the subscription model.

"There is also an increasing demand on vendors to be more proactive in devising suitable IT solutions, which is reflected in more collaborative relationships," he adds. "We've become adept at this and in offering turnkey integrated solutions. We're doing much more turnkey management work than ever before, which is set to be a long-term trend that continues after the economic downturn has lifted."

IT2's Grant also expects risk visibility – particularly counterparty risk – coupled with the need to monitor counterparty liability in a "more sensitive" manner than before to move up the agenda as the relevance of classic credit ratings is questioned. "I suspect that as people invest in more sophisticated cash management facilities, so more sophisticated risk management will come into focus," he concludes. "Everyone is aware that the financial crisis hasn't gone away."

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