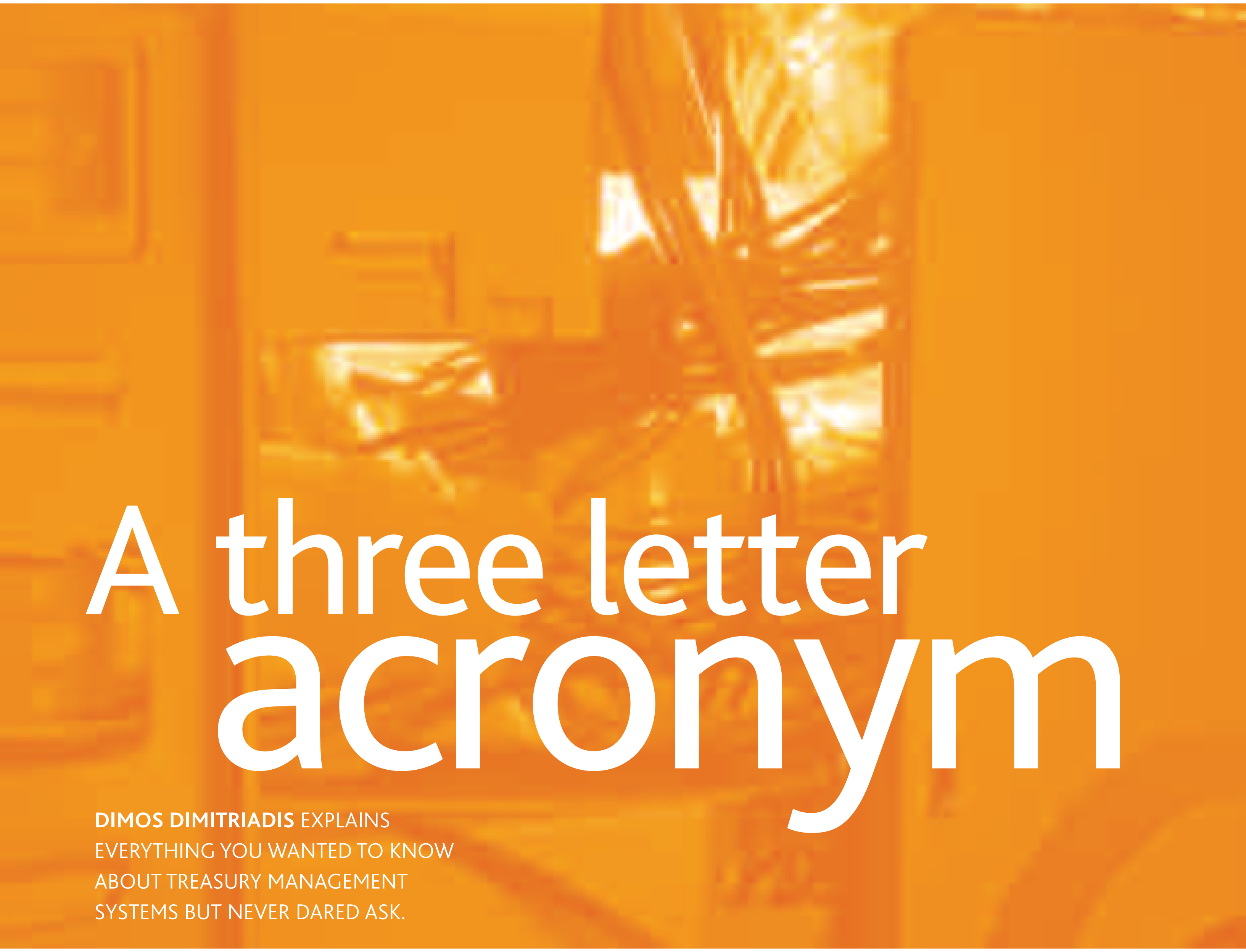


A three letter acronym

DIMOS DIMITRIADIS EXPLAINS EVERYTHING YOU WANTED TO KNOW ABOUT TREASURY MANAGEMENT SYSTEMS BUT NEVER DARED ASK.

Executive summary

- Treasury Management Systems have been around for years but that doesn't mean that they are either well understood or used correctly.

- A TMS, and therefore a Treasury Management Solution, is affected by internal company operations and by external market factors.

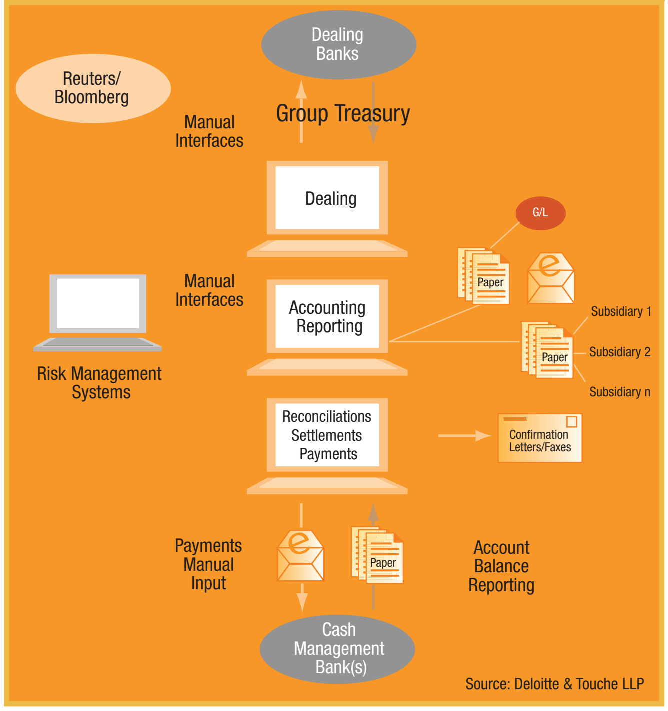
- Regulatory issues have increased the requirement for a robust reporting environment, including the TMS which contributes financial data to the company's general ledger.

- The treasury IT market is becoming more complex and the choice and implementation of a technology management solution is becoming more difficult.

The term TMS means different things to different people. To some, TMS stands for a Terrific Management Solution, to indicate a successfully installed and well-implemented solution. To some, it signifies a Terribly Messy Situation they wish they had never found themselves in, with the culprits including system vendors, consultants, IT departments and so on. There are many reasons why treasuries will find themselves in one or the other camp, and this article aims to explain why.

DIFFERENT MEANINGS To most treasuries, TMS means a Treasury Management System, a piece of software that in its basic form acts as a deal database and at its most sophisticated performs accounting and risk management calculations, processes payments, produces reports and links overseas subsidiaries to the group treasury at corporate centre via the internet. To the author, TMS translates into Technology Management Strategy, an idea which, if successfully followed, can result in a Terrific Management Solution and avoid becoming a Terribly Messy Situation. *Figure 1* shows an example of a

Figure 1. What is a Terribly Messy Situation?



Source: Deloitte & Touche LLP

Terribly Messy Situation.

The following components of this diagram are of particular interest:

1) There are three distinct processes:

a. Dealing;

b. Accounting/reporting;

c. Reconciliations/balance reporting/settlements/payments.

These are all indirectly (i.e. manually) linked with each other.

2) External dealing with banks is conducted over the phone.

3) Reconciliations/balance reporting/settlements/payments are processed via email and paper links with the cash management banks. In most cases a stand-alone bank proprietary cash management system will be used. Data will be entered and extracted manually and reports will be printed on paper.

4) There is a mail/fax confirmation process.

5) There is a paper/fax interface with the subsidiaries for internal deal and funding requests.

6) The various manual processes interface with market data and risk management systems.

The reason why this is messy is because at every step of the way there is danger of typing errors, misplaced or lost papers, errors in communications and lack of control.

In contrast, *Figure 2* shows a Terrific Management Solution.

The same components are present here as in the previous diagram, except that now they are either part of the same framework (e.g. dealing, accounting, reconciliations) and therefore directly linked, or connected via electronic means of file transfer (cash management banks, online confirmations, risk management) or links via the intranet (e.g. subsidiaries).

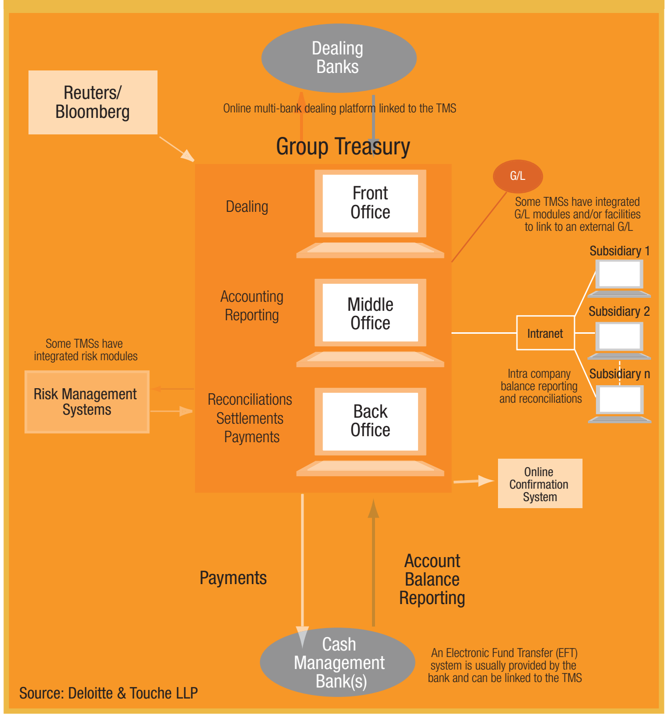
This second configuration consists of a collection of interconnected systems and electronic interfaces; it contains almost no manual processes and therefore minimises and/or eliminates errors while maximising performance. By using system audit trails and segregation of duties it supports a strong control environment. Additional reports and automatically scheduled processes contribute to a robust environment, which is ideal for establishing straight-through processing (STP, also known as Stop The Paper!). This is a true Technology Management Solution, which enables any treasury to perform at its best.

THE TREASURY MANAGEMENT SYSTEM MARKET Treasury Management Systems (TMSs) have been with us for a long time and have undergone many changes, both in terms of technology and in terms of adapting to the increasing demands of the corporate treasury. A TMS and by implication a Treasury Management Solution is affected both by internal company operations and by external market factors such as the following:

Return on investment While it is estimated that more than 70% of corporate treasuries have a TMS in place, what is not known is the number of treasuries that fully utilise their solutions and therefore maximise their return on investment (ROI). Unofficial estimates and market rumours put this figure to a low level. In other words a treasury might have all the parts in place and the potential to emulate the situation in *Figure 2,* but in practice everything looks and feels as the situation in *Figure 1*.

Mergers, acquisitions and business failures In the last few years the market has increasingly becoming more volatile, with some vendors acquiring others or forming mergers and joint ventures. That in itself creates an additional headache when going through a TMS selection process. The risk is that you might select one system but end up buying another. In some instances you might even end up buying from a company that you have rejected in the first round of selection. We must not forget the forever present risk of a vendor going out of business and by default forcing the treasury to search for a new solution.

Figure 2. What is a Terrific Management Solution?



Source: Deloitte & Touche LLP

Demarcation lines between Enterprise Resource Planning (ERP) Systems and TMSs becoming blurred Another area that is always posing a dilemma is the choice between a TMS and the treasury module of an ERP. Traditionally these areas were kept apart by the inability of both camps to cover each other's capability. However, this is now changing as ERP systems are beginning to move into the treasury area by offering very credible treasury modules and TMSs cannibalising on traditional ERP areas such as cash management and accounting (see *Figure 3*).

Naturally the differentiation is still there when it comes to the enterprise-wide utilisation of an ERP system by a corporate. Examples include inventory and payroll functionalities, which are beyond the traditional capabilities of TMSs. Conversely, the flexibility in the front office functionality and ease of deployment of a TMS cannot be matched by the complex implementation of an ERP system.

Security and network vulnerability Despite the existence of robust security features in every credible software vendor in the market, security is still an issue. This is particularly acute with networked applications where unauthorised access to your TMSs

Figure 3. ERP versus TMS

can be gained, not through lack of security features on the actual software, but through network vulnerability. In other words you have taken every precaution to secure the access to your TMS, but if your network is not well protected, your databases are at risk and by default your treasury operations. Before you all panic and rush to double-check your network security arrangements, it is worth pointing out that most of the potential damage from a network attack will be confined to the loss of a limited number of days' work, assuming that you have made arrangements for daily/nightly back-ups and off-site secure data storage. An added worry is the possibility of a general disastrous effect – such as power failure or terrorist attack – which can render your TMS unusable. The lack of appropriate contingency planning and disaster recovery can indeed prove costly in such an event.

Regulatory issues Companies' annual reports have never been so closely scrutinised in recent years nor have they ever been so tightly regulated. A lot of these accounting and reporting regulations have a direct impact on the choice of your TMS as you would not want to be implementing a solution that cannot provide you with the flexibility to address them.

As an example, think of the consequences of being unable to use your TMS for hedge effectiveness and having to create your own models on spreadsheets. Not only will you need to spend time and effort to develop them, but you will require specific expertise as well.

The Sarbanes-Oxley Act Section 404 has raised the stakes with its requirements for a robust reporting environment. Although the Act directly affects SEC registered companies, it also has wider implications as it is gradually becoming best practice with European companies as well. This in turn has a direct impact on your TMS, which contributes financial data to the company's general ledger. Your Treasury Management Strategy therefore has to adopt a system that is capable of supporting that.

Dedicated treasury IT resources One additional element which is often overlooked is the availability of suitably qualified staff to design and implement a solution. A number of corporate and other clients' treasuries lack the internal resources or funds to employ a full time treasury IT manager. The responsibilities of an IT manager include overseeing the operation and management of the TMS, its links with peripheral systems, the management of general treasury IT developments, and the management of third party relationships between the corporate and its suppliers (system vendors and others). Experience suggests that only a very small proportion of corporate treasuries appear to have a dedicated IT resource. Treasury and treasury IT are a specialised area and as such cannot be managed by the traditional central IT department. That lack of dedicated in-house resource creates problems, as often the role of the IT manager, by default, is passed over to a third party, while loosely overseen by a non-IT treasury person. As responsibilities for project management during any stage of an engagement between the corporate and the vendor become unclear, the result is delays, uncertainty and friction between the corporate and the vendor.

THE FUTURE IS MORE COMPLICATED The conclusion from all the above is that the future in the Treasury IT market is becoming more complicated and the choice of a Technology Management Solution requires more thought than it would perhaps have required a few years ago. The treasury department is faced with a complex form of choices, which include:

- the assessment of the actual functionality of the solution;
- the nature of the data flows between the main system and the peripherals (i.e. whether it is streamlined and straight-through or manual);
- the optimisation of the utilisation of the system in order to achieve maximum ROI;
- the state of the product and its vendor in the market and its vulnerability to takeovers or other changes due to market forces;
- security and contingency planning;
- the ability of the solution to provide or adapted to provide functionality to satisfy accounting regulatory requirements;
- dedicated Treasury IT resources.

Market trends show that a lot of companies, which have up to now operated without a TMS, have recently been engaged in selecting and implementing one. At the same time, companies that have already had a TMS for some time, have decided to review their current set-up and either re-implement their existing system or choose a new one. It could not therefore be a better time than now to take stock, have that strategy review and plan your way forward taking into account the points raised above.

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