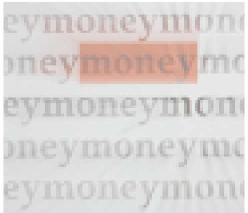
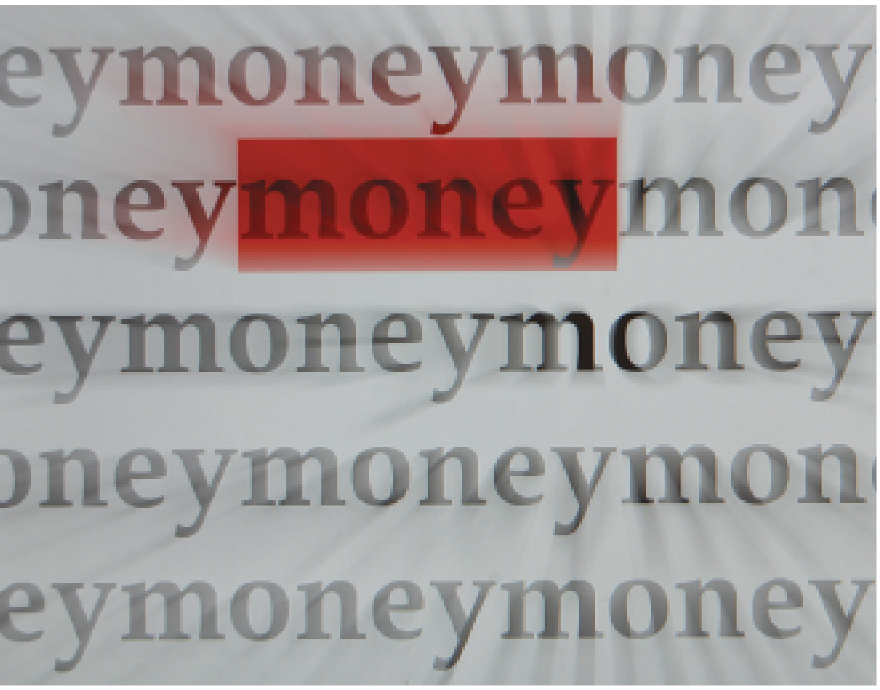


Nothing more important

PETER WILLIAMS LOOKS AT TWO RECENT SURVEYS THAT HAVE CAST NEW LIGHT ON TREASURERS' PRE-OCCUPATION WITH CASH.



Executive summary

The corporate demand for liquidity is so acute that treasurers are arranging financing deals far in advance of the actual need for them (and even incurring additional costs to do so), searching high and low to locate new funding options, and upgrading their treasury management systems to cope with cash management needs that are more pressing than ever.

Cash, cash, cash. It is the issue uppermost in treasurers' minds. An ACT study into how businesses were riding the stormy seas of recession first pointed out the new realities on funding. And two further studies by accountancy giants Deloitte and PricewaterhouseCoopers have now in different ways reinforced the message that the issue of funding is here and here to stay.

The ACT study found relatively good news on funding in the sense that bank loans and refinancing were happening, even if conditions were trickier and the amounts available were being reined back, often to nearer 60% of old facilities.

It was a similar tale from the PwC survey, which, like the ACT's, was based on in-depth conversations with treasurers in FTSE 350 companies.

Dominating treasurers' agenda is access to cash and debt, as is increased focus on working capital management. PwC described these as "market-driven" priorities reflecting treasurers' ultimate responsibility for maintaining liquidity.

With such volatility in many markets and with a series of major shock to the economy and the financial system, it is not surprising that when it comes to liquidity and cash, organisations are being cautious.

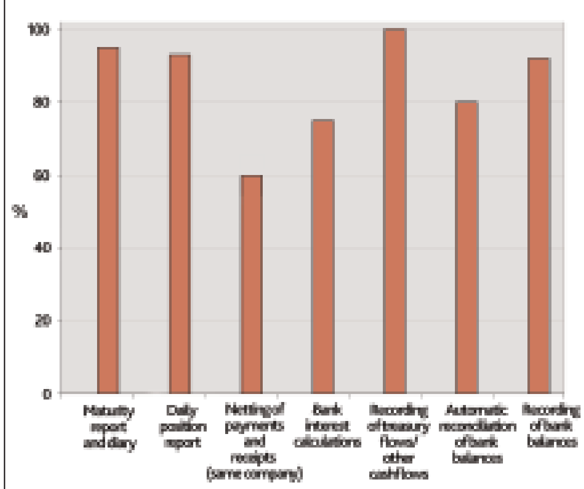
Treasurers, according to PwC, are putting a lot of their effort into trying to arrange financing well in advance of the actual need for it, even if that means incurring additional costs. After all, when a commodity becomes scarce, price matters less and this holds true for corporate funding as for any other resource.

Another facet of the emphasis on caution can be seen from the way that treasurers are seeking additional insurance through increasing their funding options, primarily through looking for new banking relationships or bank lines.

Box 1 contains more on cash-related day-to-day problems for treasurers that were unearthed by PwC.

While keen to pursue funding options, treasurers are equally committed to making sure their systems are fit for purpose, according to a survey by Deloitte. The firm's 2009 Global Treasury Management System Survey follows on from a similar study it published in 2006. The study's subtitle, Rising Demand Despite Economic Climate, explains the

Chart 1: Deployment of TMS functions



Source: Deloitte 2009 Global Treasury Management System Survey message that Deloitte saw in its findings. Two of the highlights from the 2009 survey were:

- cash management and accounting are the most heavily used features of a treasury management system (TMS); and
- liquidity management is such a feature of the current economic crisis that two-thirds of respondents are planning a significant upgrade in the next 12-18 months focusing on cash management.

Almost half the respondents to the Deloitte survey were multinational companies based in Europe; a further 40% were based in the UK and the remainder in the rest of the world. In terms of size, 60% of respondents had an annual turnover of up to €5bn; the remaining 40% had in excess of that figure, including 8% whose turnover exceeds €40bn a year.

The survey noted that cash management was a key aspect of liquidity management and in the current economic climate had become even more vital as companies tried to maximise their use of cash. It is accordingly one of the most heavily used functions of a TMS.

This is reflected in Chart 1. The survey report noted: "The chart shows that all features of cash management (recording of cashflows and bank balances, bank balance reconciliations, position reports, etc) are used by more than 80% of respondents.

"Bank interest calculations are used by just under 80%, thereby indicating well-thought-out system design and configuration, reflecting the company's bank account structure."

The report noted that the only feature with slightly lower use (60%) was settlement netting. Deloitte found this something of a surprise and thought it might illustrate either a lack of need or lack of understanding, as settlement process could add operational efficiency and cost savings to the payments process.

The survey found that the vast majority of companies operated a centralised treasury, and that over 90% of respondents (an increase of more than 10% on the 2006 survey) used an off-the-shelf application.

THE REPORTING PROBLEMS With the demand for visibility of cash now so important for treasurers, the rest of the finance function and beyond, it is essential that management reports can be extracted from a TMS. The existence of easy-to-use reporting tools will help the treasurer arrange data and produce reliable and meaningful reports quickly and efficiently. A good reporting tool should also help to avoid the use of secondary systems, notably spreadsheets.

The majority of treasurers (70%, according to the survey) find it easy to produce queries and simple reports from their TMS. However, almost as many (65%) said that they did not find it easy producing reports for management information. According to Deloitte, this type of reporting often involves some data arrangement, reformatting, additional calculations and possibly graphical representations.

The report suggested that the complexity of some of the reporting tools available within a TMS, and the requirement for specialist skills to develop and format these reports, meant that users were often resorting to outputting raw data into spreadsheets to achieve the required results. Such an approach poses risks to data integrity.

Many treasurers and their staff will currently be putting in extra effort into reporting to satisfy board-level demand for cash and liquidity information. And it is doubtful whether in the majority of the cases the tools for producing such cash reports have caught up with the demand.

And that leads onto the question of how treasurers want to improve their systems. The survey found that the two key concerns of treasurers were cashflow forecasting and liquidity management. In the survey report Deloitte said: "Given the current financial situation these two issues are closely linked and perhaps set the basis for significant upgrades in the TMS in the next 12 to 18 months that over 60% of respondents are planning. Indeed, over 90% are planning to concentrate on cash management." So there you go: cash, cash, cash.

Box 1: Best friends no more

The credit crunch may have become an accepted fact of life but, according to the PwC survey, treasurers are still surprised by some of the ramifications of the changes in the financial system and the outlook and behaviour of the banks. In particular, the survey says: "Treasurers are disappointed – even hurt – by the apparent evolution of relationship banking."

Cash and funding are key treasury priorities, but the banks appear to be less helpful, taking more time to make decisions, applying greater scrutiny, putting extra pressure on margins, and attempting to accelerate repricing. The banks' desperation to start the process of rebuilding their balance sheets may be understandable, but the result as far as some treasurers are concerned is that they are being bullied, while others feel ignored.

Treasury departments are surprised by how slow and difficult even routine actions have become. Capital constraints mean that funding decisions are now judged solely in the cold hard light of return on investment. Relationship managers are risking their own reputation, maybe ultimately even their jobs, within the bank when they back a client and are therefore demanding more reassurance and negotiating tougher terms. It is a regime that treasurers are likely to have to live with for some time.

Box 2: First SEPA, next Swift

According to the Deloitte survey, over 60% of respondents are happy that their TMS can cope with SEPA. This follows on from the 2006 survey where most respondents were keen to see more developments made to cash management modules so they could cope with SEPA and Swift requirements.

The latest survey found that 60% had considered Swift as a alternative to traditional payment and balance reporting channels such as bank-owned systems. However, only 20% were actively using Swift for this purpose. Swift for corporates is a relatively new product and its adoption is growing.

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