



Current developments in IT and technology

Brian Welch of UserCare Limited summarises all the latest developments in IT and technology to affect treasuries.

The current developments in IT and technology can best be divided into three areas: event-driven issues, such as the euro and Y2K and the resulting market pressures; commercial developments, which may not affect treasurers directly, but will affect the choice of systems available; and technological developments.

Event-driven issues

These were issues stimulated by the introduction of the euro and Y2K concerns, which have distorted the supply and demand in the treasury management systems (TMS) market.

The Y2K concerns meant that during the first half of 1999, systems suppliers concentrated on ensuring there were no concerns about their products while there was a rush by some corporates to replace existing older systems. Now that we know that Y2K was successfully covered (in most cases) there will probably be another surge by corporates wanting to replace their systems.

The TMS market took the introduction of the euro in its stride, and apart from certain transitional requirements, it is being treated as just another currency. The electronic banking (EB) systems dealt with most of the immediate issues relating to its introduction before the end of 1998, although there will be a further step in the process at the end of 2001 when the euro replaces the 'legacy' currencies completely.

Commercial developments

The most significant developments in IT and technology at the moment may not be directly related to those topics, but concerns the commercial consolidation among the suppliers in the market, with mergers and takeovers.

During the 1990s, there seemed to be a continual increase in the number and

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range of TMS products from suppliers, both large and small. It is not known how profitable some of the individual suppliers were, especially in view of the need to upgrade existing systems, while supporting older versions for some of their customers. (It might seem unusual that customers do not want to take system upgrades, but as many corporates purchase their systems with substantial customisation, not all suppliers apply their regular upgrades to all of the customised versions.)

The mergers and acquisitions that have taken place during the past year or so, are probably a reflection of the globalisation of the market and the standardised approach to treasury and treasury instruments throughout the world,



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which have made systems developed for one market attractive for companies worldwide.

Nobody wants to have a treasury system provided by a company which isn't making money and can't afford to keep its existing system up to date, although few systems suppliers will admit to being in that position when pitching for a corporate's business. The consolidation that is taking place will probably make some of the existing suppliers stronger, although over the long term it must be likely that they will not want to continue to supply the systems provided by each of the companies they have taken over.

Computer languages are much more interchangeable these days, but the most widely used systems have been around for a long time. They may not be completely up to date, but would require a major re-write to do so for limited benefit. Not all the suppliers or their systems will survive, and once a company decides not to support a system, the choice will be to adopt the alternative solution being offered by the supplier, or to embark on a time-consuming and costly search for a new system. The corporates will not be the winners in that process.

The treasury systems market is something of a niche and it is surprising that there are so many suppliers and, indeed, that new ones continue to be attracted to it. New systems suppliers always appear to fail to appreciate that the selection and implementation of a system is such a time-consuming process, that corporates will only tend to change their system if they are totally dissatisfied with it or if they have other special reasons.

No company uses more than one TMS out of the main treasury and only the most decentralised groups allow each subsidiary to select and run its own

system. Companies are now more likely to use a single system out of different sites in different countries, which means that even if the level of usage increases, the number of systems required falls. So why do so many suppliers believe the TMS market is so lucrative?

Like many concerns in other markets, I suspect some just don't understand corporate treasury, which begs the question, are their systems capable of meeting the treasurer's needs?

Another development in the TMS market has been the growth of enterprise resource planning (ERP) systems such as SAP or PeopleSoft. In these, the supplier provides a system for the complete enterprise, with the TMS being an integrated part of the overall system. The treasury module may not have all of the facilities offered by the individual TMS suppliers, but the ERP suppliers claim that the overall package is less expensive and meets the corporate's overall requirements. It is likely that most ERP suppliers will develop their own TMS modules, but it is still not clear if corporate treasurers will be happy to use them or if they will continue to insist on having a separate TMS. The accounting requirements concerning disclosure of treasury transactions under FRS 13 in the UK and FAS 133 in the US, may tip the balance in favour of ERP systems in some companies, although I wonder if the treasury element will be capable of picking up all of the required information.

There are some treasury systems that are now using browser technology, which has the benefit of not being limited to a specific location. With the Y2K and euro issues now effectively resolved, we will see some of the well-known suppliers developing their systems to adopt the latest delivery and presentation techniques. They will also be working on interfaces and integration with the ERP systems to try to head off the threats from those suppliers.

Technological developments

Technological developments are still important, although the corporate treasury market is traditionally conservative in adopting them. The latest developments have taken a while to be integrated into treasury management systems and, for example, only a few years ago many treasury systems did not offer Windows input or output screens. EB products are similarly cautious to embrace the latest techniques.

This is because their security procedures and techniques were well tried and tested and there is perceived to be little benefit in abandoning secure and trusted systems for the e-commerce arena where there are more potential security concerns because of easier access and more visibility.

However, we are now seeing new systems being introduced that are using browser technology for the full range of EB services. The first major bank with this capability is Deutsche Bank with its db-direct internet product, which delivers balance and transaction reporting over the internet as well as other services such as account reconciliation and netting. Funds transfers are handled over the internet, which includes usual security procedures and techniques.

Now that Deutsche Bank has led the market into internet-based EB, there will be added pressure for other banks which regard themselves as leaders in this area to introduce a competitive product. The difference this time is likely to be that internet development and technology will encourage those banks that are at the front of the race to stay there. That contrasts with the earlier practice of development leapfrog between banks whereby one bank would reach a certain level of development with its EB system, only to be overtaken by another, and then another, until they were ready to upgrade again.

Another stimulus for upgrading EB systems is the ongoing trend of mergers and acquisitions in banking. However, unless both banks have old, out-of-date systems, the tendency is for the merged bank to adopt the more up-to-date, or dominant system, while they deal with more pressing organisational issues.

As far as the corporates are concerned, it would be helpful if the banks could agree a single access, delivery and security structure for EB so that multi-banked corporates don't have to learn how to operate a series of different systems. The banks would then compete on cost and service, rather than on the bells and whistles. Or would that be too much to hope for? ■

Brian Welch is a treasury consultant through his company UserCare Limited. He will be speaking at the Association conference on treasury technology and cash management 2000 on 27/28 March. Contact Kate Frere on 020 7213 0737 for more details.