TACKLING A TMS

What are the main considerations when it comes to implementing a new TMS? Eddie Fogarty explains

Most treasurers will implement a new treasury management system (TMS) at least once in their professional lives. Many will do it just once. Being an infrequent experience, it can be a difficult task. Because of the perceived obstacles, many treasuries put it off and struggle on with inadequate systems and manual processes far longer than they should.

What is a TMS?

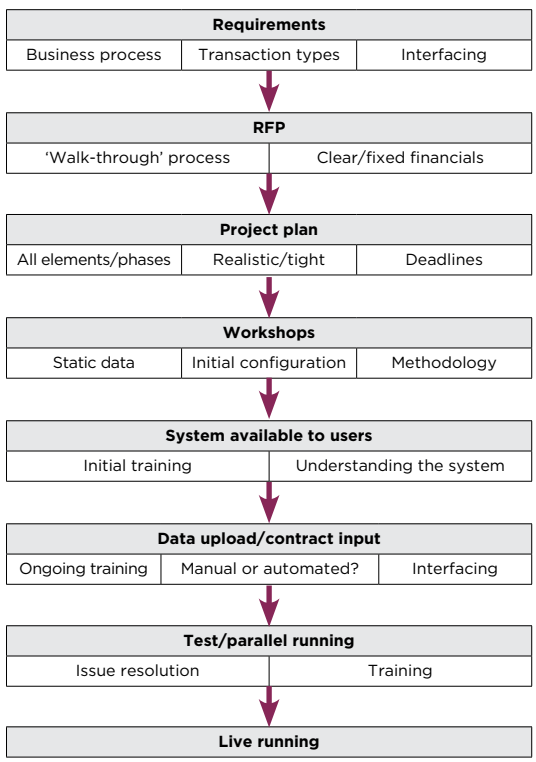
It may appear rather obvious, but many treasurers have questions about TMSs, their scope and functionality, and how they fit in with other systems already in use.

A TMS typically covers the treasury front-, mid- and back-office process, meaning that it processes transactions from, and including, the doing of the deal, up to and including settlement and generation of accounting entries. In addition, it provides all the analysis, risk management and reporting in respect of the transactions and positions within the system. There are some important aspects of this that are worth emphasising.

- Firstly, in relation to starting point, the treasury dealer should be simultaneously inputting the deal while on the phone. There is no 'deal docket' being completed; it's an online activity, with no interim steps or recording.
- In some situations, there can be a requirement for a 'pre-deal' phase. The key point is that the TMS should support the business process from the earliest point possible, minimising or eliminating the manual or paper-based elements.
- Typically, the life cycle of a treasury transaction is completed when settlement takes place and the transaction is posted within the accounting system. The TMS should generate the settlement instructions for the treasury transactions, delivering those in electronic form to a payment system, for example, SWIFT or a bank payment system, or in hard copy if that is the business process.
- There is less uniformity when it comes to what the various TMSs will do when it comes to accounting. Preferably, the TMS will generate all the account postings, including the revaluations, for all treasury transactions, passing those seamlessly to the accounting system. Given the ever-shortening month-end processes, this level of automation is quite important.
- Sometimes treasurers ask to see the risk management module of the TMS, implying that somehow 'risk management' is separable from the rest of treasury. In reality, 'risk management' is – or should be – all-pervasive and embedded throughout the system, especially if seen as broadly defined and including operational risks. The system should process the transaction from the point of deal entry, in accordance with an embedded 'best practice' control framework that provides segregation, counterparty checks, limit checks, etc.

In summary, the TMS would typically interface with the accounting system to deliver the account postings, and with one or more payment/banking system to give settlement instructions and/or upload account balances. In addition, it would link with a market information system to upload interest rates, exchange rates and other market prices as frequently as required. Other interfacing may be needed, for example, with an online FX dealing system, or with secondary market bond trading systems, depending on the specific environment.

KEY POINT SUMMARY



Managing the project

Treasury should take responsibility for the project to select and implement the new TMS. It should determine its functional requirements, review these with the vendors, and lead the selection process. An agreed project plan with clear milestones should be the constant reference point for managing the project. Realistically a TMS implementation requires a minimum of four months for a very straightforward application and a maximum of 12, depending on interfacing and customisation, with six months being a good average.

Defining the requirements

The critical part of any project is getting the basic concept right at the very beginning. The treasurer is the key player and must ensure that the basic concept is appropriate to the organisation and the requirements. False assumptions at the beginning can have big costs later on.

It is good to involve a business analyst to guide and drive the process. A concise description of the treasury business requirements and the environment in

terms of other systems, users and locations needs to be created. The essential components to specify are: transaction types (ie the money market, capital market and FX transactions, current and expected), the business process/scope (for example, cash flow forecasting, cash management, bank accounts) and analytical/reporting outputs.

Treasurers must guard against 'design creep', ie an accumulation of a lot of small additions, each perfectly justifiable on their own, but when taken together, results in a moving target of ever-expanding size. It is also important to highlight any unusual or company-specific aspects that the system needs to have to the software vendor. In addition, a new TMS is an opportunity to review and change the business process and this should form part of the project plan.

Reviewing the RFP responses

Treasury should aim to get at least three, preferably five, strong request-for-proposal (RFP) responses. While it is necessary to undertake a review and shortlisting of the RFP responses, procurement of a new system should not be a paper exercise. It is not feasible to document requirements, send them to various vendors, evaluate the responses and select. It is essential to get an in-depth understanding of what each system can actually provide – by focusing on the actual system itself.

The only way to do this is by going through the system with the vendor in detail, allowing a full day for this exercise. This is not overkill because once the TMS is selected, treasury will have to live with it for a number of years with little or no room for second thoughts. So the due diligence is worth it.

In reviewing the RFP responses, clearly the functionality and price are important, but so, too, is the implementation process and ongoing support and maintenance.

Budget

Treasury systems vary significantly in price. In a shortlist of five, it would not be unusual to find that the highest priced was almost double the lowest price. Given this wide range in pricing, it can be difficult to set a budget at the outset. To avoid overruns on budget or indeed on contract, treasury should look for a fixed price contract, with clarity on what's included and excluded, and the pricing for the optional extras. The main reasons why costs can get out of control are second thoughts on requirements and too much customisation.

As a rule of thumb, the implementation cost can be equal to the software cost. To manage this cost, treasury should spend time developing or agreeing a good project plan, one that includes all the tasks and correctly maps out the critical path.

Treasury should also consider the 'cost of ownership' over the life of the TMS. What will be the cost of upgrades and new versions? Will moving to the latest versions be obligatory? It is important to avoid having little, or no, option but to upgrade in the future at a significant cost.

Conclusion

Good systems are essential for effective treasury management. Risk management, control, analysis and reporting can be streamlined and the hidden costs of poor systems removed. The process of acquiring and implementing such a system is a big step, but a proper approach means that it need not be a daunting task.

BUILD, BUY OR RENT?

Very few treasurers today would dwell on the 'build versus buy' decision. The systems available on the market mean that internal systems development simply does not make sense. The costs and the risks are too high.

The 'buy versus rent' option is something to consider, however. Basically 'to buy' means buying an initial licence (meaning the right to use the software) and paying an annual licence fee (to access ongoing support and maintenance and get system upgrades), with the software being installed on your in-house IT infrastructure.

The alternative 'application service provider' (ASP) or software as a service (SaaS) model means that you pay an annual user fee and the software is installed/accessed at some external facility, rather than sitting on your in-house servers. From a user perspective, the functionality is the same. Pricing – or perhaps more correctly, cash flow – and contractual and IT policy issues are the differentiating points. The ASP/SaaS approach spreads the payments over time, avoiding the upfront expenditure.

Eddie Fogarty is managing director at FTI Treasury