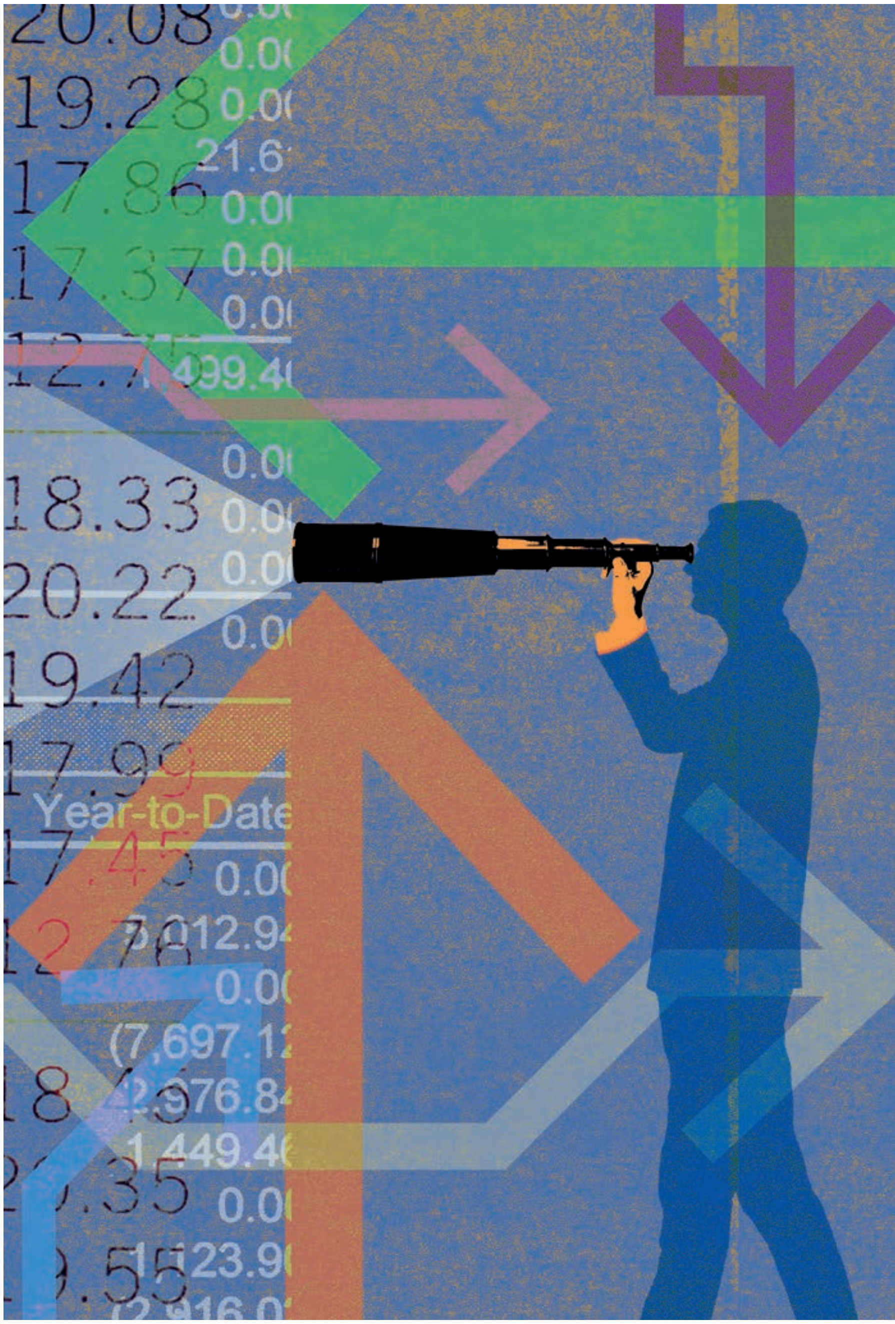
Finding treasure in a sea of data

LESLEY MEALL WONDERS WHAT GEMS CAN BE FOUND WITHIN THE WAVES OF DATA THAT CORPORATES GRAPPLE WITH



Treasurers are only human. As the world becomes more digital and the treasury function becomes more automated, it can feel as if you are swimming against the tide in an endless sea of data – because you are. As well as creating this challenge, IT can, of course, provide solutions, in the shape of the many tools that are now available to help you to track and report on treasury performance and manage market events. However, treasurers need to be good swimmers.

"The source data that provides the underlying basis of cash, liquidity and risk management resides somewhere in the business and it is imperative that this data is accurate, timely and understood effectively. Without that underlying knowledge it is impossible to effectively manage an organisation's liquidity and risk profile – in fact, imperfect data could very easily lead to an increase in its risk profile," says Paul Bramwell, senior vice president of treasury solutions for SunGard's AvantGard.

Once the source data is collected and collated into a usable format, it can be summarised into 'buckets' of information that can be used to form a dashboard, showing key metrics that are recorded for use by treasury, the wider finance function and other parts of the business. But before you go diving into that sea of data, or selecting metrics and key performance indicators (KPIs), there are important matters to consider.

Aims and alignment

"We need to be very clear on a few things," suggests Daniel Wong, head of global treasury operations at British American Tobacco (BAT), one of the biggest companies in the world, which has a globally centralised treasury function. It is important to identify the behaviours you want to monitor and manage – as this drives KPIs – and whether they are aligned to corporate strategy or controls. "Don't measure things that aren't important," says Wong – not least because of the cost.

"There are massive costs related to managing a huge amount of data, so we collect what we need," he says. He also emphasises the importance of data-management infrastructure and the ability to analyse data quickly or in an automated fashion. Without this ability you can end up getting poor and late data (which is likely to translate into useless information), or you can spend too much on headcount to generate just a handful of reports.

With the basics attended to, you can focus on the treasury metrics and KPIs that are most important to those in the treasury team and to C-suite executives and managers in other parts of the business. So what are treasurers measuring? What do they have on their dashboards, and why? To some extent, this is determined by the software tools they have in place and the underlying data these have access to; but there are some metrics that many treasurers measure and monitor.

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"We measure the following key metrics within our monthly management information," says Frank Turley, group treasurer, Legal & General Group. He lists:

- Financial performance (return on short-term investments);
- Cost of debt (actual and prospective);
- FX hedging (performance vs benchmark);
- Credit default swaps vs peer group;
- Credit rating vs sector; and
- Key rating agency metrics (leverage and cover ratios).

At Affinity Sutton, head of treasury, Ben Fozard, produces a monthly treasury report, which monitors:

- Cash – by counterparty/duration/interest rate/credit rating;
- Debt – by entity/credit rating of lender/undrawn facilities;
- Group liquidity;
- Breakdown of swaps, including mark-to-market and impact of interest-rate curve movements;
- Current hedging levels and projected future levels;
- Available security pool for future debt issuance;
- Key covenant compliance;
- Liquidity forecast out for 10 years; and
- Debt-maturity profile.

Fozard also produces a separate quarterly report to analyse bank charges.

"We have numerous KPIs, says Wong. For example, operational KPIs, such as bank fees and cash vs forecast, analytical KPIs, such as hedge performance or total counterparty exposure, or strategic KPIs, such as credit rating and long-term funding. It's a constant challenge to make sure they are relevant and aligned to strategic objectives," he adds.

Other examples of BAT group treasury low-level operational KPIs include hedging ratios by subsidiaries and currencies. There are payment KPIs, such as percentage straight-through processing for payments and treasury settlements. Targeted cash balances, investments and borrowings, and dealer errors, plus cash-flow forecasting errors for the short and medium term are also monitored.

At a higher level, the BAT group treasury looks at financing principles and metrics to monitor liquidity and funding risk; monitors credit-rating projections and keeps an eye on the total interest rate and FX risk carried on the balance sheet. "These measures help us make sure that we continue to have access to funding at an optimum rate to pursue our corporate agenda," says Wong.

The data infrastructure of a corporate and its counterparties may influence the metrics available to a treasury team and its potential usefulness. Some services leverage the vast amounts of transaction data that passes through bank pipes, along with complex algorithms, to benefit individual clients. Citi, for example, analyses client payments, then, if it identifies what it considers to be anomalies in the client payment flows, these are reported on a client dashboard.

"This type of tool flags up areas where we feel more attention needs to be paid," says Steven Elms, EMEA industrials sector head, treasury and trade solutions, Citi. It could be amounts, beneficiary, country or currency – and the client determines how sensitive the analytics are. "This is developing further, to include pre-release of payments," he adds. "We can provide the client with the option to have a maker-checker on a particular payment, because we have flagged it up as suspicious."

What lies beneath?

Perspectives vary among Fozard, Turley and Wong on the need to be able to drill down into the underlying data from the metrics and KPIs they are measuring and monitoring. "It's not important for us currently," says Turley. In contrast, Fozard says: "It is important for me," and for a variety of reasons. "So that I can sense check that the data is accurate," he explains, "and sometimes people want data cut in a slightly different way, so I need the base data when that happens."

How much you can learn from drilling down and how useful this is may relate to the subject matter and the quality and completeness of the underlying data. For example, the counterparty risk element of a dashboard may show a summary of exposure to certain credit ratings. A drill down could show you which individual banks you are exposed to; a further drill down could show you which instruments you have with each of those counterparties.

For Wong, the importance of drill down depends on the subject. "For cash-flow forecasting, sometimes you want to understand the driver for particular shifts. For example, a period of business model change that results in unreliable receivables forecasting, etc." Drill down is unlikely to involve static and reliable metrics. "We need to spend more time on more variable factors, and we can only see this if we drill down into more detail," he says. "We live in an age of data."

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