LEADING TREASURY PROFESSIONALS

Prioritise Technology to Support the Treasurer's Expanding Role

Kyriba / Association of Corporate Treasurers 2016 Treasury Survey

Introduction

Now in its fourth year, this report is based on an online survey conducted by Kyriba and the Association of Corporate Treasurers (ACT) in the first quarter of 2016 to explore concerns, challenges and priorities amongst the corporate treasury community.

The survey reveals that resource-strapped treasurers face the concurrent issues of growing operational complexity, more onerous compliance requirements, and an expanding role. Increasingly, not only are treasurers concerned with the 'traditional' treasury issues of liquidity and risk, but their skills are in demand to take the lead in working capital optimisation, and to play a more strategic role in the business. This report outlines how treasurers are responding to and embracing these challenges, and points to some of the factors that are driving success.

Findings in this report are based on the insights and opinions of a cross-section of 332 finance and treasury professionals from companies of all sizes and geographies. Results of the 2012-15 studies can be found on Kyriba's website at www.kyriba.com.

Key findings

A more strategic role...

Over 90 percent of companies have centralised treasury to a greater or lesser extent. This is instrumental in enabling treasurers to manage group cash and liquidity, with 84 percent of treasurers responsible for these activities. In addition, we are seeing a notable expansion of the strategic aspects of the treasurer's role, including strategic financial analysis, and acting as counsel to the board and executive team.

Note to CFO: Only half of respondents are satisfied with their strategic performance citing lack of time as the primary reason for reduced **value creation**.

...but not enough time to fulfil it....

Treasurers are spending more time on cash flow forecasting and compliance than ever before, reflecting the growing importance of these activities in the current market and regulatory environment. Unfortunately, with manual processes rife, this is allowing small treasury teams less time to spend on the strategic activities with which they are tasked.

Note to CFO: Regulatory and market demands are causing treasurers to spend more **time** on cash flow forecasting and compliance than ever before.

...due to manual processes....

The survey reveals extensive use of spreadsheets for managing the treasury function, particularly amongst companies with a turnover of up to £1bn. However, those using specialist treasury management technology report considerable success in automation, reducing operational risk and increasing visibility over cash and liquidity. Treasurers who do not currently use a treasury management system (TMS) identify these as key improvement priorities for the year ahead.

Note to CFO: Manual processes are restricting the amount of time treasurers can spend on **strategic** financial analysis and decision-making support.

... and lack of information.

Less than 60 percent of corporate treasury participants have visibility of over 80 percent of global cash, while more than a quarter (28 percent) have visibility of less than 60 percent of forecast cash flow. Lack of information, and the amount of time taken to create a current and forecast cash position, is a major obstacle to informed liquidity and risk decisions.

Note to CFO: Greater **visibility** of cash and process automation are identified as key improvement priorities for the year ahead.

The year ahead...

Risk of fraud, including cyberfraud, continues to increase, but currently, many treasurers are not putting sufficient resources into this area given the potential for considerable financial and reputational damage. In addition to cash and liquidity management, cash flow forecasting and process automation bank account management (BAM) including eBAM, and risk management are also important priorities.

Note to CFO: Risk of **fraud** is growing (along with potential financial & reputational loss), with 2016 revealing a 20% increase from the previous year in the number of companies having been the target of attempted fraud. The largest actual loss reported was $2.5m from a single incidence.

...will be a busy one!

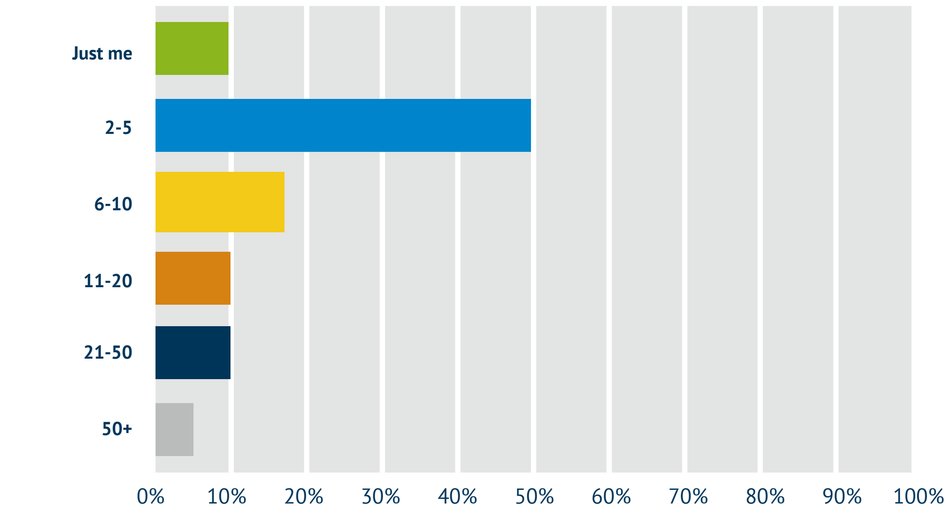
The challenging market and regulatory environment places enormous pressure on treasurers but survey participants were reasonably confident in their ability to overcome these challenges. Visibility over information and process efficiency are key to enabling treasurers to fulfil their operational and strategic role effectively, and comply with increasingly complex and onerous compliance obligations.

Note to CFO: Less than half of respondents feel confident in their supply chain financing techniques for **working capital** management optimisation.

What's the role of treasury in 2016?

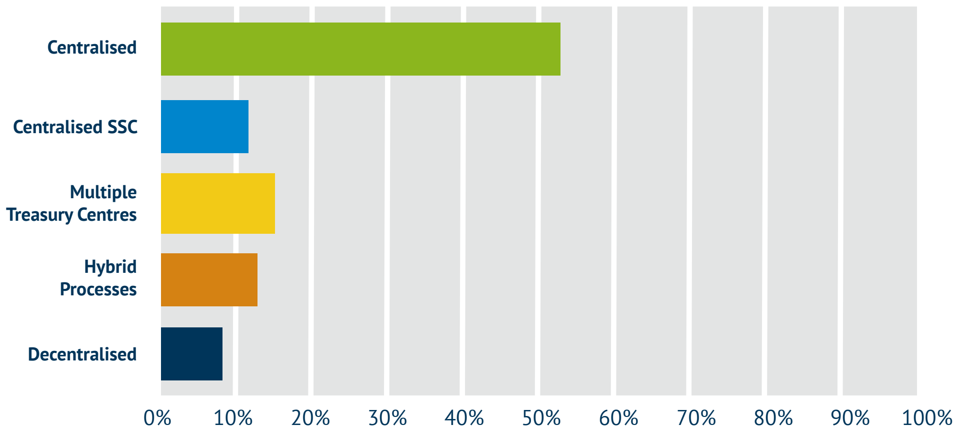
As previous reports have illustrated, treasury continues to be characterised by an international scope, and significant diversity and complexity of activities, but small departments (figure 1). The majority of treasury functions operate with between 2 and 5 people, which places enormous pressure on the breadth and depth of skills that are required, the efficiency of treasury operations and quality of control, and sophistication of reporting and analysis.

Figure 1. How big is your treasury team?



One of the ways in which treasury is optimising the use of both skills and technical resources is by centralising treasury activities across the group. Centralising treasury allows companies to leverage specialist resources and technology more effectively, achieve better visibility and control over liquidity and risk, build economies of scale and streamline bank relationships, accounts and connectivity. More than half of respondents (54 percent, figure 2) have a fully centralised treasury function, while others have centralised at a regional level or integrated some treasury activities into a shared service centre. Only 9 percent of companies have not centralised treasury to any degree.

Figure 2. Degree of treasury centralisation



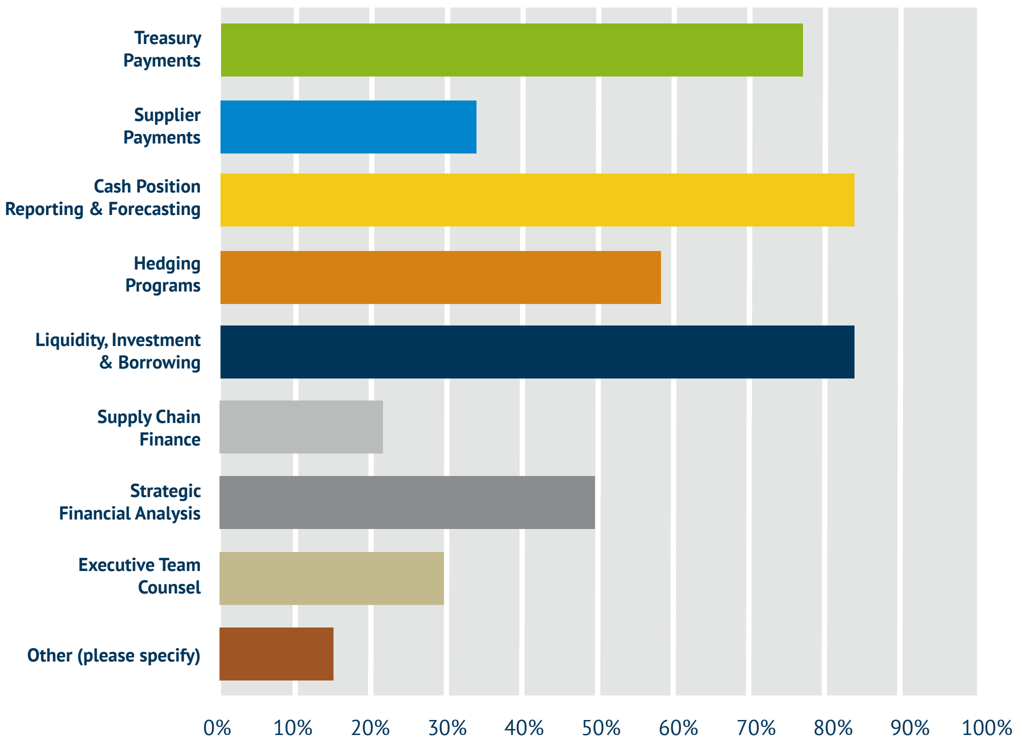
As treasurers centralise their activities, they are in a better position to manage cash, liquidity and risk at a group level, which is reflected in the expansion of their responsibilities in these areas. In 2015, 70 percent of respondents were responsible for cash position reporting and forecasting while in 2016, this has increased to 84 percent (figure 3). Another area that has grown significantly over the past year is the proportion of treasurers taking responsibility for group liquidity management, including investment and borrowing, which has grown from 67 percent in 2015 to 84 percent in 2016.

The fact that these two issues have become more important is not surprising given the ongoing challenges of a prolonged period of low interest rates, and negative interest rates in Europe. Furthermore, although Basel III is targeted at banks, there are implications for their corporate and institutional clients. Many treasurers are starting to review their liquidity strategies as banks become less able to accept non-operating deposits of less than 30 days, traditional lending is becoming more constrained in some cases, and liquidity management tools such as notional pooling are put under pressure.

From operational to strategic

While daily cash and liquidity responsibilities remain high on treasury's agenda, another interesting trend in 2016 is the increase in the number of treasurers engaged on more strategic activities. Half of respondents noted that they provide strategic financial analysis, compared with 39 percent a year ago, while 30 percent are acting as counsel to the executive team (2015, 24 percent). It is extremely encouraging that the skills, expertise and strategic value that treasury offers to the business is being more widely recognised at an executive level. However, these wider responsibilities put pressure on treasurers to make sure that their analytic and reporting tools are sophisticated enough to enable them to fulfil this role given the limited resources available.

Figure 3. Treasury's daily responsibilities

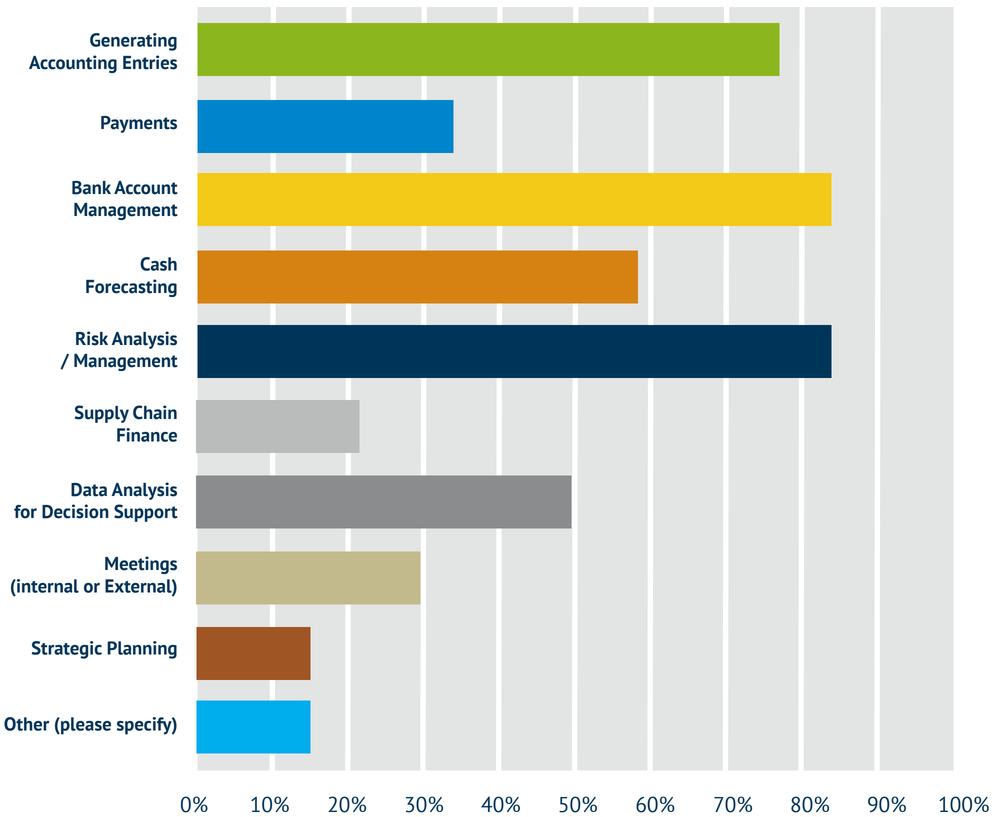


How are treasurers spending their time?

The changing market and regulatory environment is having an impact on how treasurers spend their time, with a considerable shake up over the past 12 months. In 2015, a typical treasurer spent their time on 1) risk management, 2) internal or external meetings, and 3) cash flow forecasting. A year on, cash flow forecasting is taking more time than any other single activity, driven by the need to manage liquidity more effectively. Risk management is now at number two, but bank account management is also now taking up more time than ever (39 percent, compared with 29 percent in 2015). This is driven primarily by banks' need to fulfil more rigorous compliance requirements, such as know your customer (KYC), KYCC (know your customer's customer) and sanctions screening, so the amount and frequency of information they need from customers is growing. Given that most treasurers operate across regions, with multiple bank relationships and accounts (see figure 6 below), the resources required for compliance are growing, a particular challenge in small treasury teams.

As we saw in figure 3, treasurers' skills are increasingly in demand at an executive and board level, but the pressure on resourcing for compliance and liquidity management purposes is squeezing the amount of time they can spend on these more strategic activities. In 2015, for example, 35 percent of respondents indicated that strategic planning was one of the top three ways in which they spent their time: in 2016, this has fallen to 30 percent. With no immediate prospect of liquidity management and compliance becoming less important or onerous in the years ahead, treasurers will need to find ways of automating and streamlining these activities wherever possible to allow them to spend more time on activities that add strategic value to the business.

Figure 4. How treasurers spend their time

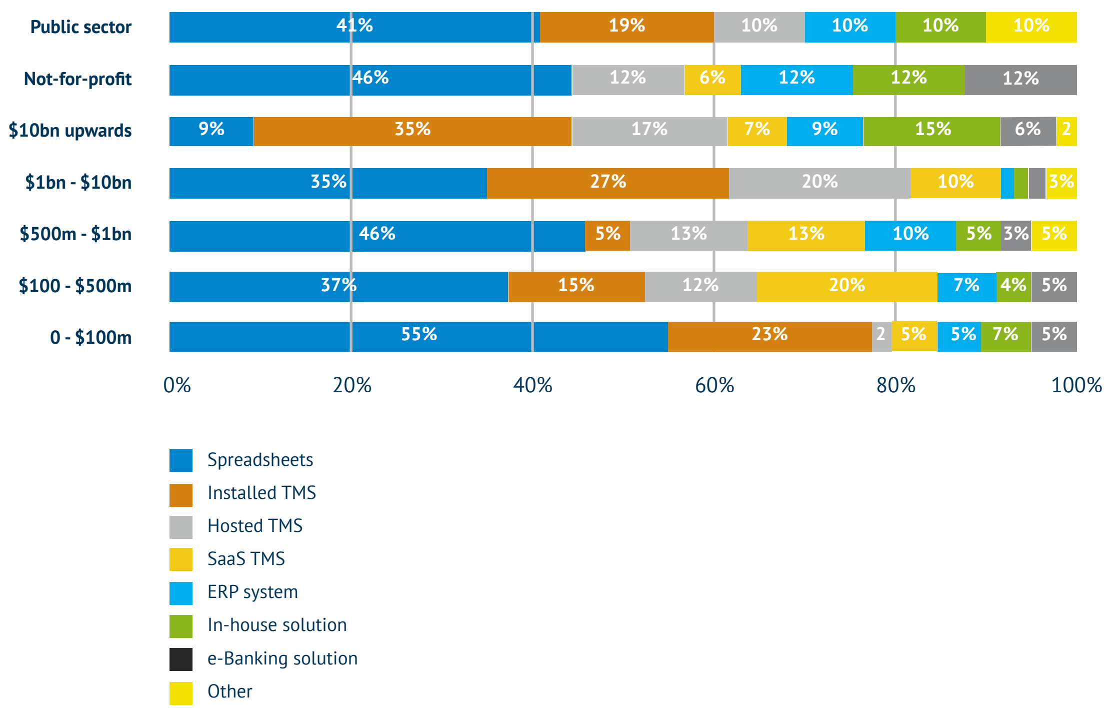


How are treasurers making use of technology?

Technology can play an important role in improving the efficiency of cash management processes and decision-making, and reducing the compliance burden, but many treasurers face obstacles in the acquisition of specialist treasury technology. Forty four percent of respondents from the private sector use a treasury management system (TMS), whether installed, hosted or Software-as-a-Service (SaaS) (figure 5). TMS usage is lower in the public and not-for-profit sectors, however, largely for reasons of scale or complexity e.g. public sector treasuries often have very high volumes, but their operations are primarily domestic in scope.

More than a third (36 percent) of treasury departments use spreadsheets, and this is far higher once the largest companies (i.e. with a turnover of >$10bn) are excluded. Notably, however, 46 percent with a turnover of £500m - £1bn, and 35 percent of companies with a turnover of $1bn - $10bn manage their treasury processes, analysis and reporting using manual tools. This creates considerable operational and financial risk bearing in mind the risk of error or omission, and limits treasurers' role to transaction management rather than more value-added activities. Given the increased incidence and financial and reputational risks of fraud, and more onerous regulatory compliance requirements, there remains a large proportion of treasuries that would benefit considerably from a robust control framework, as well as operational and decision-making support that a TMS can offer.

Figure 5. Use of technology in treasury



Some of the most common reasons for not using a TMS (or treasury module of an ERP system) today is that the treasury function is not sufficiently complex to justify the business case, or that budgetary constraints exist. While some treasury functions base their business case for a TMS on potential productivity gains, the ability to increase visibility and control over cash and risk, both operational and financial, are also key drivers. For example, participants in this survey who currently use a TMS emphasised the following advantages:

84% - Automation of manual tasks
74% - Reduction in operational risk (i.e. risks associated with fraud or error)
72% - Enhanced visibility over cash and liquidity
66% - Improved control over processes, including approvals and authorities

Despite the potential obstacles to adopting technology, 19 percent of surveyed companies are in the process of acquiring new technology, in most cases for the first time, or in some cases replacing obsolete systems. Increasingly, treasurers find that they are able to overcome some of the internal obstacles to acquiring treasury technology by opting for a SaaS solution as implementation, maintenance and hosting complexity and costs are typically far lower than an installed TMS.

Most treasurers that use a TMS currently access the solution using a desktop or laptop, but as some vendors make their applications available through multiple devices, such as tablets or smartphones, users are starting to take advantage of the convenience that this capability offers. Sixteen percent now use a tablet to access their TMS, and 22 percent use a smartphone, illustrating that use of business applications is starting to become more closely aligned with consumer applications.

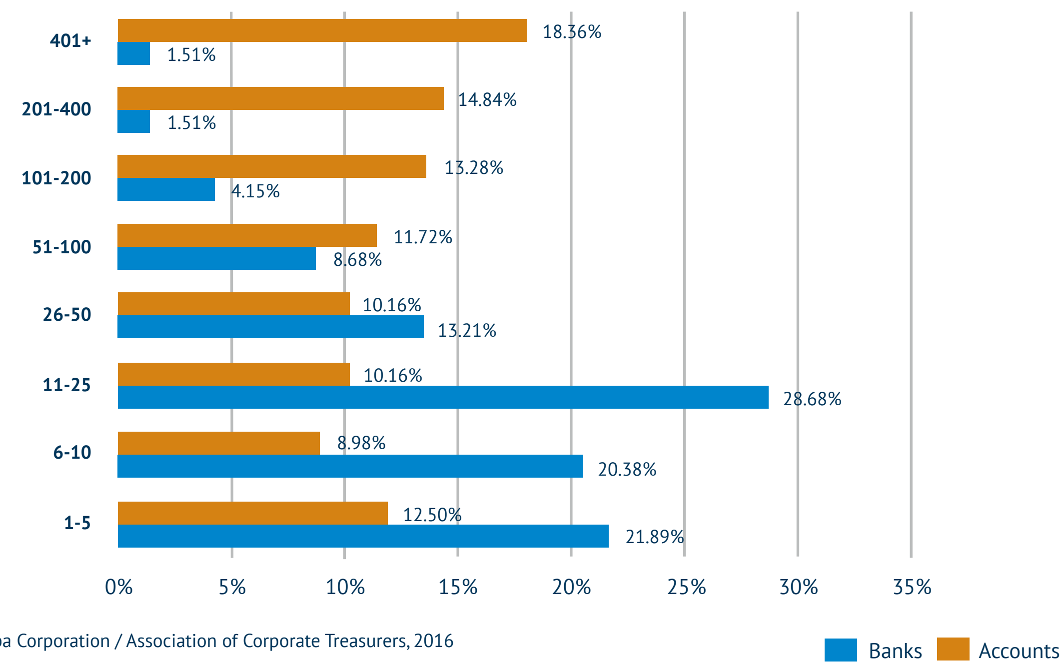
Even so, although treasurers are keeping a close eye on innovations and evolving opportunities, they remain focused on the needs of the business rather than simply following the latest fad. One such example is bitcoin. Despite the 'noise' in the market about bitcoin, 86 percent have no intention of transacting business in the virtual currency. What is more compelling, however, is the technology on which bitcoin is based, namely blockchain, with banks and market information providers working hard to explore opportunities to change fundamentally the way that transactions are conducted, which will ultimately have exciting implications for corporate treasurers.

Do treasurers have the full picture?

With 84 percent of treasurers taking responsibility for cash position reporting and forecasting (figure 2) it is essential to have access to balance and transaction information across all group banks and accounts. For companies operating domestically or in a limited number of markets in a region such as Europe, it is feasible to work with a single cash management bank. As a company expands its international footprint, engages in M&A and/or seeks to manage their counterparty risk more proactively, however, appointing a single bank becomes increasingly difficult. The greater the number of bank relationships and accounts that a treasurer needs to manage, the more difficult it becomes to communicate in a consistent way, standardise controls and user rights, collate data in a systematic way, and avoid fragmentation of liquidity.

Figure 6 highlights the scale of the challenge. Almost 80 percent of respondents need to collate data sourced from at least six banks. A fifth of these need to access data from more than 50 banks. Similarly, nearly 60 percent of participating companies manage more than 50 bank accounts, more than half of which hold more than 200 accounts.

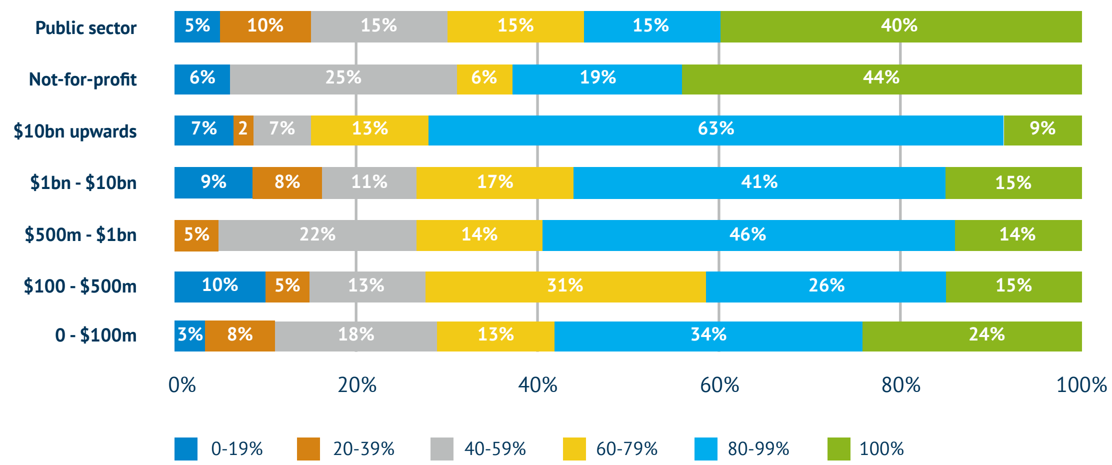
Figure 6. Number of banks and bank accounts



At first glance, it appears that treasurers have been quite successful in streamlining information and transactions despite the difficulties of managing information and transactions across a number of banks and accounts. Fifty eight percent of participants indicated that they have visibility over 80 percent or more of their cash across all types of organisation.

However, as figure 7 reveals, treasurers are achieving different levels of success. It is of particular concern that 28 percent of treasurers of companies with a turnover of less than £10bn have visibility over less than 60 percent of cash. Despite having the most complex banking relationships, the largest companies (with a turnover of £10bn), typically have visibility over the highest proportion of their cash, enabling them to identify, monitor and manage liquidity and risk effectively. These companies are also most likely to use specialist treasury management technology.

Figure 7. Current cash visibility by company size

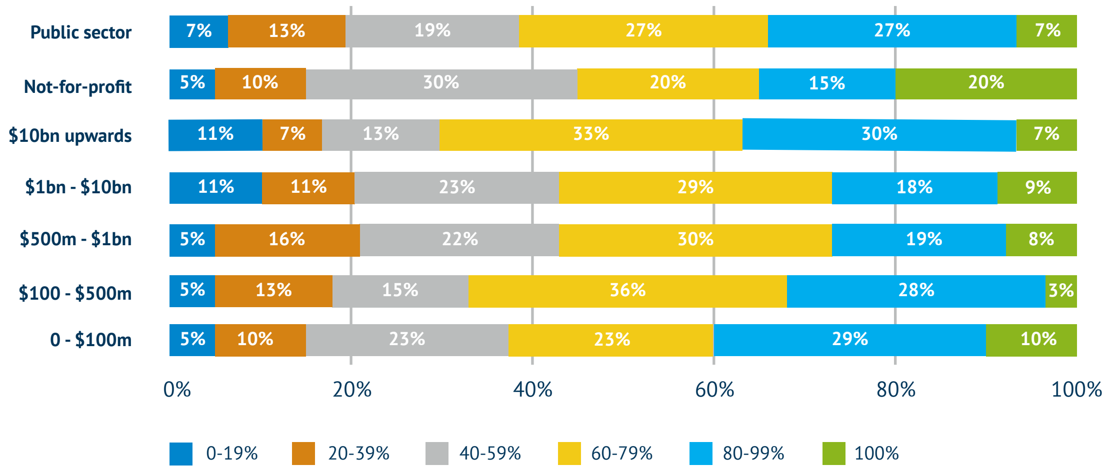


A forward-looking view

Cash flow forecasting presents a different set of challenges, and treasury is often less able to influence the timeliness, accuracy and format of forecast data from across the group bearing in mind that data is often held in many different systems and owned by users with diverse priorities. Once these obstacles have been overcome in one part of the business, the process often has to start again as companies acquire new businesses into the group; consequently, few treasurers have 'solved' cash flow forecasting.

While cash flow forecasting is of a greater or lesser priority in different organisations depending on their industry and liquidity profile, figure 4 earlier showed that it has grown in importance for many organisations, and is taking a larger proportion of treasurers' time. In general, as figure 8 shows, the largest companies (>£10bn turnover, that often have most resources and access to technology) and smallest (up to £100m, that often have simpler/ domestic operations) are marginally more successful in cash flow forecasting than their peers, with 37 percent and 38 percent respectively achieving visibility of more than 80 percent of forecast cash flow. However, the relatively low level of visibility across companies of all sizes, and the time required to produce this information, demonstrates that finding ways to remove organisational and technology roadblocks should be a priority.

Figure 8. Forecast cash visibility by company size



How well is treasury performing?

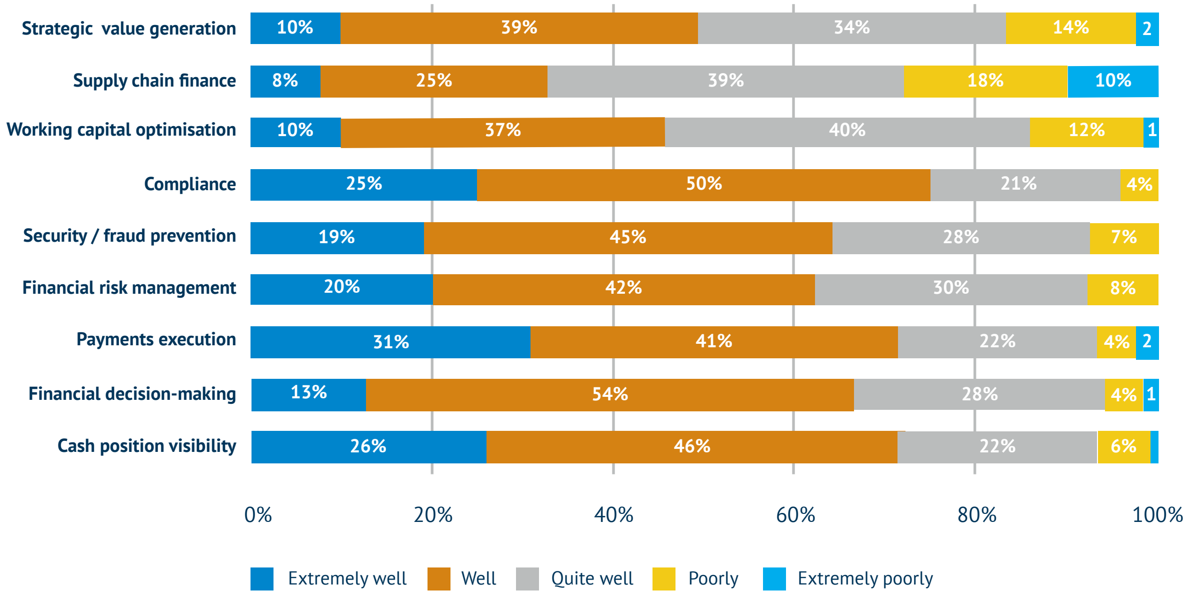
As the previous section demonstrates, cash flow forecasting is a key area in which many treasurers should be looking to improve their performance; in addition, there is also considerable potential in many treasury departments to improve visibility and control over current cash. It is perhaps surprising, therefore, that cash visibility is one of the areas in which treasurers have the greatest confidence in their performance (figure 9, 72 percent answered "well" or "extremely well"), together with compliance (75 percent) and payments execution (73 percent). In some cases, treasurers may not realise the degree of improvement that can be achieved by improving the use of technology, processes, and integration. The reality, however, is that without visibility over cash, treasurers cannot make informed decisions on liquidity and risk, borrowing costs are often higher than necessary, while surplus cash balances are left idle earning a small return or even incurring costs.

Visibility over cash is also closely linked with working capital management, an area in which treasury is becoming increasingly involved (figure 3); however, while treasurers are reasonably confident in their visibility over cash, they are far less confident in their working capital performance: fewer than half (47 percent) of participants said that they performed well or extremely well in this area. This is understandable as for many treasurers, it is a recently acquired responsibility, and it requires more collaboration and integration with departments such as procurement, sales, accounts payable and receivable than other more traditional treasury responsibilities. Related to this, treasurers have a relatively low level of confidence in their use of supply chain finance techniques to enhance working capital, emphasising that there may be opportunities in areas such as reverse factoring, dynamic discounting and/ or supplier or distributor financing to reinforce other working capital optimisation initiatives.

Confidence through change

Another notable area in which treasurers recognise there are still improvements to be made is in strategic value generation, where only half (51 percent) are satisfied with their performance. As we established earlier (figure 3) this is an increasingly important role for treasurers, but currently, they are not able to spend sufficient time on it (figure 4). Consequently, the more that treasurers can automate and streamline their operational tasks, the more time they can spend on value creation and the better their performance.

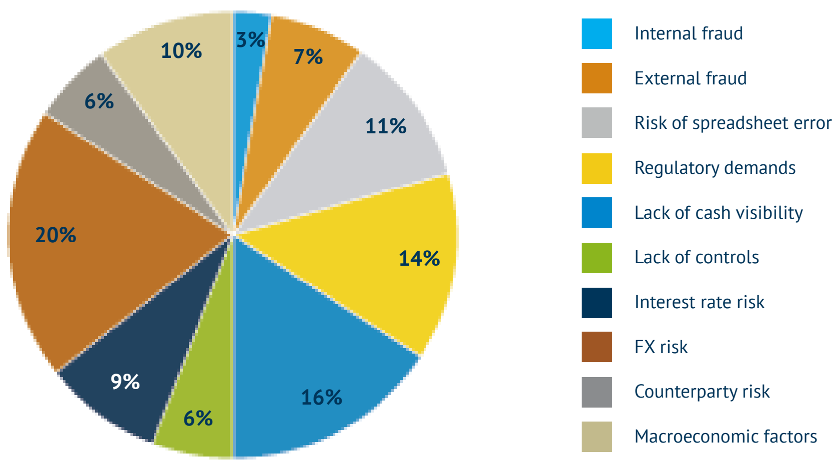
Figure 9. Perspectives on treasury performance



What's on treasurers' horizon?

Looking ahead, treasurers face new and familiar challenges which will continue to put pressure on the ways they use their resources, technology and banking services. Figure 10 illustrates the weighted ranking of treasurers' top three risk factors for the year ahead. FX risk, lack of cash visibility and regulatory demands are considered the most significant risk factors for the year ahead, but operational controls are also a cause of concern.

Figure 10. Perceived risks in treasury over the coming year

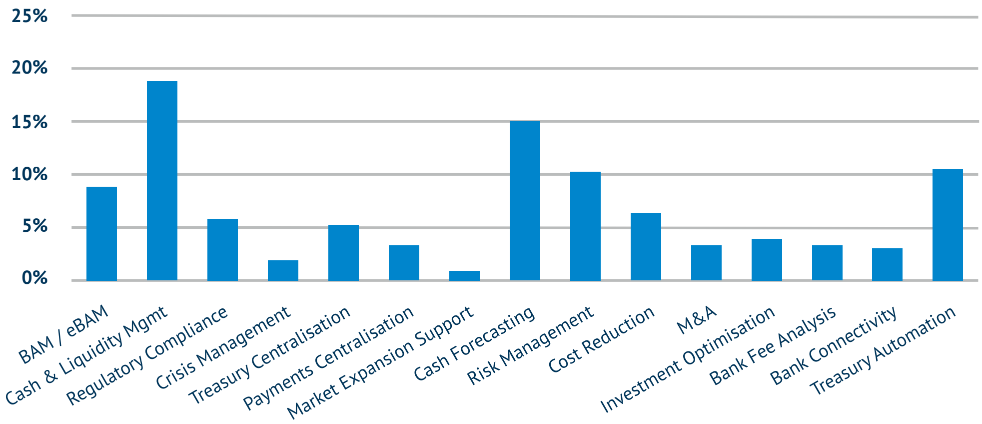


One interesting feature of this survey was the relatively low priority that participants placed on internal and external fraud (including cyberfraud). While managing economic and regulatory risks are clearly an essential part of treasurers' remit, protecting the integrity of cash, flows and data must also be a key priority. Sixty two percent of participants noted that their treasury function had been the actual or attempted target of internal or external fraud (from 43 percent in 2015), and this figure is likely to be higher once telephone and email scams (e.g. CEO, IT or bank impersonation) are taken into account. Those that had suffered from internal or external fraud identified financial losses of up to $2.5m through single incidences. Even one successful fraud attempt, whether internal or external, can have significant financial implications that far outweigh the costs of implementing a more robust control environment, while the reputational damage can also be considerable.

While internal and external fraud management should therefore be a priority for the year ahead, treasurers have a range of other areas in which they wish to improve (figure 11). As this chart demonstrates, cash and liquidity management, cash flow forecasting and treasury automation were most frequently included in treasurers' top three improvement priorities, but BAM/ eBAM, and risk management also feature highly, reflecting the regulatory and market environment in which treasurers operate.

These issues are likely to continue to be priorities over the year ahead, but with the right processes and controls, use of resources and technology, and banking solutions and services, there is considerable opportunity to automate more operational tasks and allow treasurers to focus on the activities that add more strategic value to the business.

Figure 11. Improvement priorities for the year ahead



Demographics

332 responses were received, which were broken down as follows:

Figure 12. Type of organisation

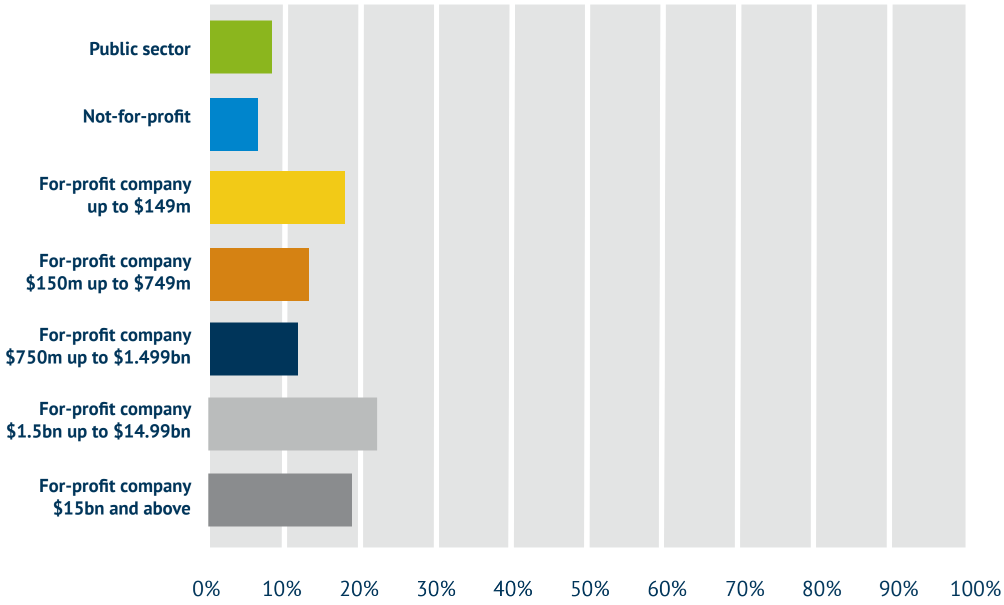


Figure 13. Geographic areas of responsibility

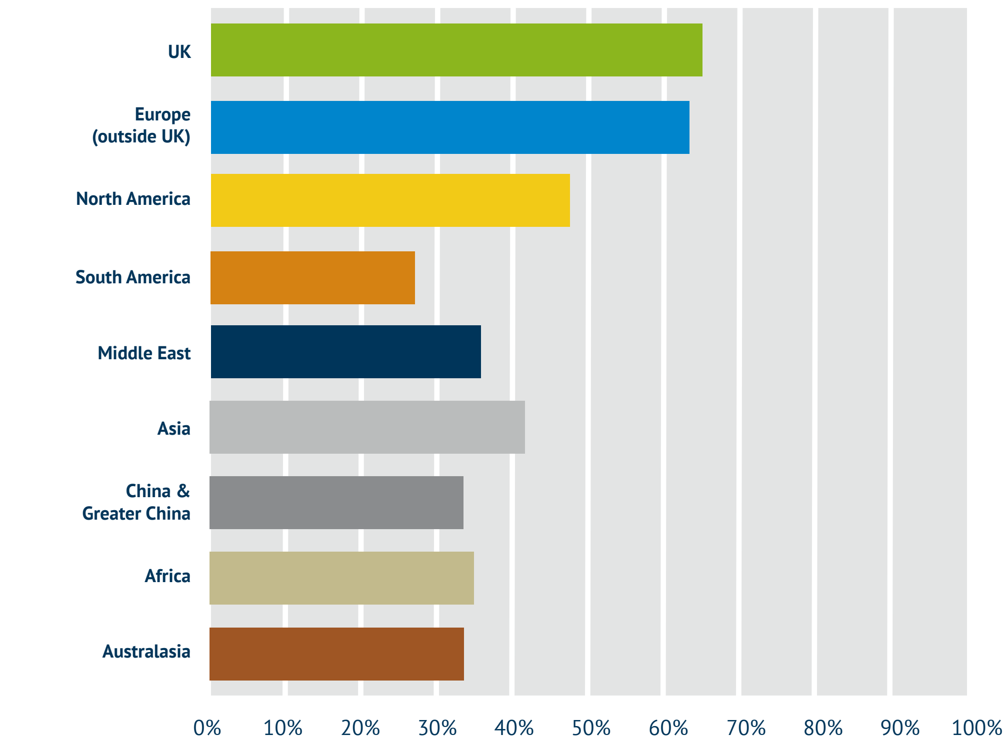
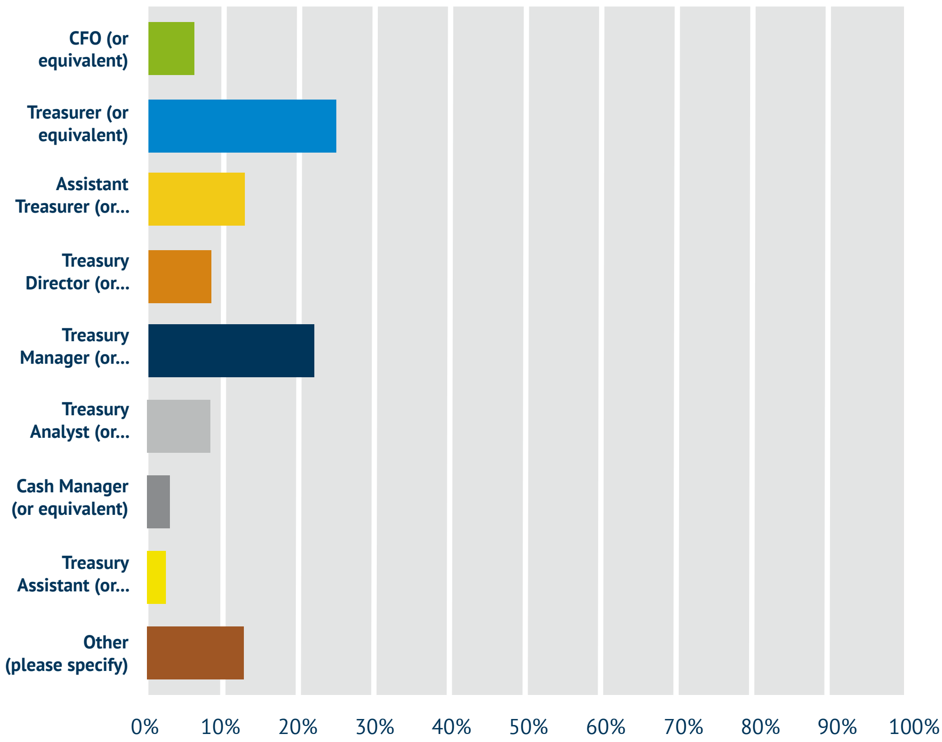


Figure 14. Respondent role



For more information

If you would like to learn how to address some of the challenges raised in this survey, and are interested in hearing more about treasury in the cloud, visit www.kyriba.com. You can also email info-uk@kyriba.com or call Kyriba's UK headquarters on +44 (0) 20 7268 3501. If you would like to hear more about the Association of Corporate Treasurers or are interested in joining the ACT, please visit www.treasurers.org or call +44 (0) 20 7847 2540. If you are a member of the media or an analyst and would like further details or analysis of this research, or would be interested in speaking with a member of Kyriba's team about this survey, please contact Daniel Shaffer at *dshaffer@kyriba.com.*

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About Kyriba

Kyriba is the power behind The Treasury Cloud, enabling CFOs, treasurers and finance leaders to manage corporate cash more effectively, reduce fraud, minimize financial risk, and drive corporate growth. More than 1,200 of the world's most successful and respected companies trust Kyriba's secure and scalable SaaS cash and liquidity, payments, risk management and supply chain finance solutions to make more informed strategic financial decisions, and generate business value.

To learn how The Treasury Cloud can elevate your organization's capabilities, and find out why Kyriba is the world's most used treasury management system, contact *treasury@kyriba.com* or visit *kyriba.com*.

About the ACT

The Association of Corporate Treasurers (ACT) sets the benchmark for international treasury excellence. As the chartered body for treasury, we lead the profession through our internationally recognised suite of treasury qualifications, by defining standards and championing continuing professional development. We are the authentic voice of the treasury profession representing the interests of the real economy and educating, supporting and leading the treasurers of today and tomorrow. For more information please visit www.treasurers.org

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