Technology & Treasury Management Supplement 2011

GLOBAL FINANCE

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A Treasurer's Best Friend

With cash visibility and control more important than ever, and with risk management becoming an increasing part of the corporate treasurer's job, technology is playing an ever more pivotal role. As its sophistication grows, treasury technology can help treasurers better manage cash, accounts, FX and transaction flows.

In this year's Technology and Treasury Management supplement, we look at the convergence between treasury and technology in three main areas. With currency volatility still a major issue for treasury managers—and likely to remain so—foreign exchange exposure management is more crucial. In response, treasurers are making even greater use of their enterprise resource planning (ERP) and treasury management systems to deliver the data and analyses they need to better manage their exposures.

One of the more recent and exciting developments in the treasury management space is the introduction of mobile corporate banking. The past year has seen banks and financial software vendors launch a number of mobile corporate banking applications that enable treasurers to remotely authorize payments, view trade documentation such as letters of credit and conduct electronic invoice presentment and payment on a mobile device. We hear from some of the early movers in this space, who say that the advent of smartphones has the potential to radically transform treasury management—particularly as screen real estate increases with the emergence of tablet computers such as the iPad. However, unlike its retail equivalent, mobile corporate banking is still in its infancy, and not every bank is convinced of its value. More important, perhaps, mobile network operators and the banks are still drawing the lines of engagement in the tussle over who owns the customer and who can deliver the greatest value.

A debate is also raging over the relative value and performance benefits of ERP and dedicated treasury management systems. A key question is whether the treasury functionality within ERP systems has evolved sufficiently for them to rival dedicated systems in relation to treasury management capabilities. Increasingly, treasurers are looking to leverage their existing ERP investments instead of buying a dedicated treasury management system. We look at the pros and cons of both approaches.

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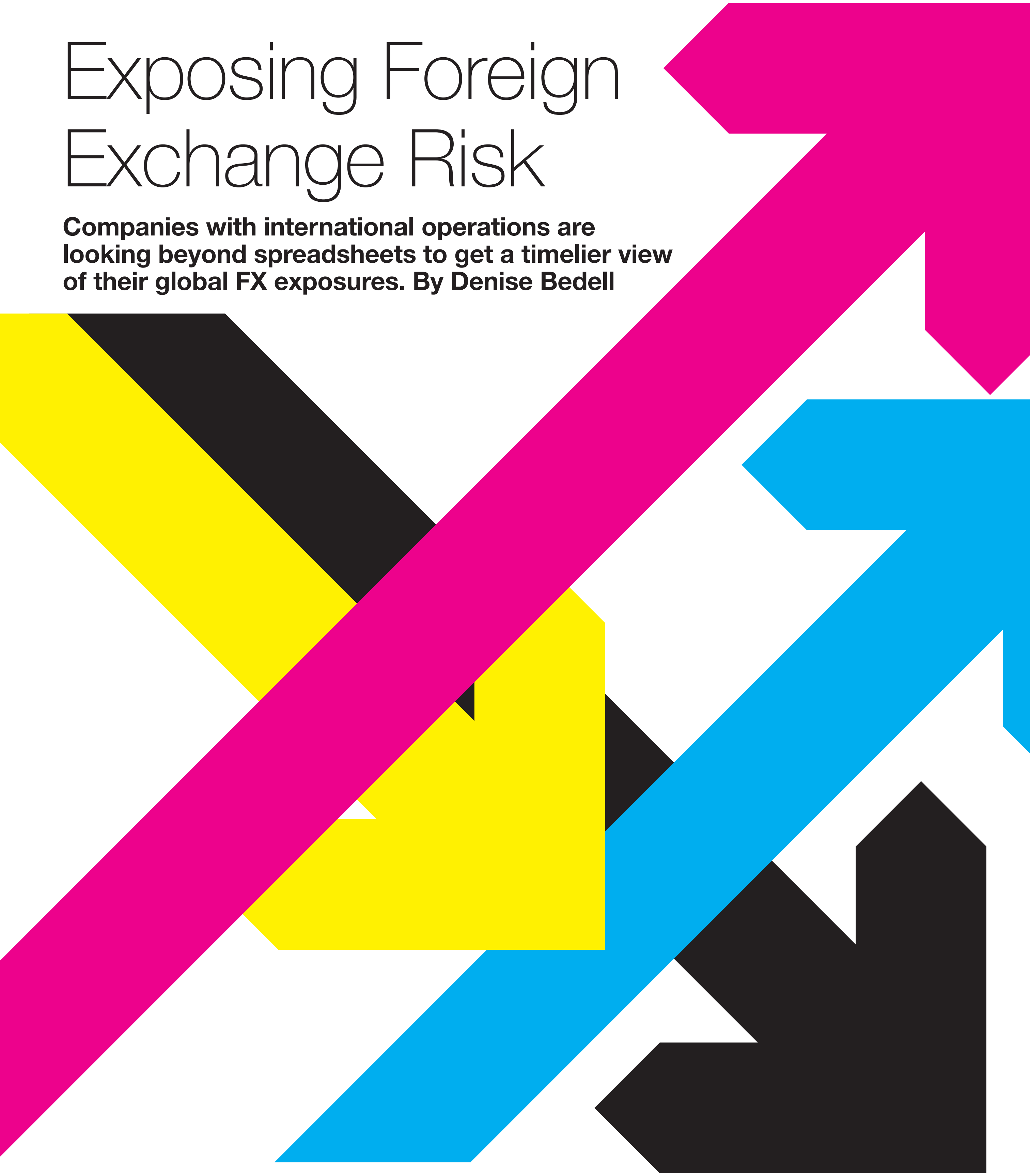
Exposing Foreign Exchange Risk

Companies with international operations are looking beyond spreadsheets to get a timelier view of their global FX exposures. By Denise Bedell



Within a few hours of Osama bin Laden's being killed, global markets had responded. The price of oil was down and the dollar was up. The near-instant reaction highlighted a growing trend: Global events are having a practically immediate impact on markets—and hence corporate risk exposures.

Companies began to see the effects of this in their results during the recent financial crisis, with, for example, unrealized FX losses increasing in size and significance on the balance sheet. Consequently, most multinational companies have had to reevaluate both their exposure management processes and systems in order to get a clearer, more timely picture of global exposures.

Sander van Tol, a partner at Zanders FX, says: "Treasurers are definitely managing FX exposures more closely due to the increased currency volatility." As part of this transformation, companies are focusing on how they evaluate exposures, notes van Tol: "Most corporates use their cash flow forecast for this purpose." The cash flow forecast and resulting FX exposures may be created by the ERP (enterprise resource planning] system of the company or specialized treasury management systems, or, as in many cases, by a spreadsheet.

Although many companies still use a spreadsheet in whole or in part for forecasting cash flows and exposures, the drawback of doing so is becoming ever more apparent. No matter how sophisticated a company's macros might be, managing complex exposures via spreadsheet takes a significant amount of time and resources. Although spreadsheets provide a great deal of flexibility, for those companies with real-time exposures, real-time solutions are key.

Chris Davis, co-founder and managing director at FX work-flow solution provider TwoFour, says: "It is overwhelming the amount of manual processes that have to be created and macros that are necessary to move data around with a spreadsheet." He points to issues with backing up spreadsheets, the potential for keying error and accidental changes, and the lack of easily auditable process trails as drawbacks to a spreadsheet approach.

In global companies with many exposures the biggest issues, however, are time and resources. Real-time information is critical in global risk management, and spreadsheets simply may not make the grade on that front.

For corporations that see a need for more real-time exposure management, the desire for something beyond spreadsheets is increasing. This fits in with the broader trend toward using either a specialized treasury management system (TMS) or an ERP system with an integrated treasury module for wider treasury, cash and risk management, says Ari Morris, a partner at Treasury Alliance Group: "There is more demand and interest in fully functional TMSs, and within that treasurers are getting [access to] reports and better understanding what their FX positions might be."

"The advantage of using a TMS or integrated ERP is that these systems can also be used for deal management, transaction management and [hedge] accounting," says van Tol. In addition to making exposure reporting more effective, companies are also reevaluating both their policies and procedures around FX management and their use of external systems for managing transactions.

Jeffrey Wallace, managing partner at Greenwich Treasury Advisors, says: "There might be more corporate use of the CLS Bank, which has real-time settlement of FX trades, as the best way to eliminate settlement risk." SWIFT—for connecting with counterparties—and the use of systems such as IT solutions provider Misys' online trade confirmation service may also become increasingly popular for companies. These offerings can greatly improve automation and reduce counterparty connections and transaction costs. Companies connecting to their counterparties through SWIFT can use it for FX confirmations, and use SWIFTNet Accord for confirmation matching.

While the credit crisis provided a boost to this development, the continued and increasing volatility of the FX markets have fueled the trend. Companies struggled to handle the impact of exposures on their profit-and-loss and balance sheets as an indirect effect of the credit crisis. "The P&L and balance sheets of most companies were hit by the credit crisis, and hence realized and unrealized FX losses have a bigger impact on the company," says van Tol.

It is not just FX exposures that companies are looking at, notes Justin Brimfield, senior vice president for Corporate Development at solution provider Reval: "The volatility that is being experienced by corporations is not just in the FX market. Certainly commodities and interest rates have also been volatile and have caused organizations to review and react."

As a result, many companies are reviewing their entire risk management strategies. Baron Canon, a solutions manager at Misys Opics Plus, explains: "There is obviously a big emphasis on risk management, but also a renewed focus on getting back to basics. There is more concentration on hedging, but simpler hedging. [Clients] want liquid, easier-to-understand products."

The impact of global regulatory changes also has to be considered in any hedging strategy. In the US, for example, the Dodd-Frank Act is coming in and hedge accounting is changing. "Even though that affects only a certain type of corporate, it will result in a rise in transaction costs, widening spreads and so on," says Canon. "This will impact everyone that goes out in the market and is hedging positions in FX."

Morris believes companies are in an initial stage of awareness, education and understanding of how to improve exposure management. "They are setting the stage for what will come in the next wave of development, where they will actually execute strategies to increase visibility, reporting and so on."

The first step is education. In order to delve deeply into exposures, it is not just systems that must be adjusted but also behavior. Exposures begin at the operating company level. For companies hoping to create greater visibility in their global risk, change has to happen at that level. Improving understanding of the bigger risk picture by those at a business unit level who generate the exposures will help them to better clarify exposures and thus allow treasury to create a more accurate picture of risk. ■

The Next Frontier

Take-up of mobile banking services is accelerating as services—and the devices they run on—become ever more sophisticated. By Anita Hawser

At an annual gathering of the world's largest corporate and investment banks held in Amsterdam late last year, the iPad was the latest must-have accessory. Even the CEO of the gathering's organizer, SWIFT, a Brussels-based, bank-owned telecommunications network that replaced outmoded technologies such as the telex machine in banks' back offices, was seen furiously typing away on the tablet.

SWIFT and the global banks it represents are not normally known for being at the forefront of technology, particularly in the corporate banking space, which often lags the retail market when it comes to adopting solutions based on mobile or handheld devices. However, at the SWIFT conference there was substantial buzz about mobile technologies. Various financial software vendors and banks announced mobile corporate banking applications that would enable end users to remotely access a wide range of functions, including account and transaction information, remote authorization of payments, e-invoices, letters of credit and other trade documents and even information on corporate actions notifications.

"Corporates are starting to demand these [mobile] types of solutions," says John Mitchell, vice president of sales for Luup, which provides mobile solutions for banks. "CEOs and CFOs have smartphones and are starting to see the potential for real-time interaction and on-the-go-type capabilities that they don't get from existing banking systems today."

According to an October 2010 Aite Group survey of more than 300 treasury executives worldwide that was sponsored by transaction banking solutions provider Fundtech, more than 40% of treasurers surveyed indicated they were "likely" or "very likely" to use mobile banking services, and more than 55% expressed an interest in using mobile devices for more advanced functions such as approving transactions (including wire and payroll) and initiating payments. The survey also indicated that security was a concern for more than 65% of treasury executives. " I think mobile banking will roll out quickly if we can get over the security hump and convince people [mobile banking] is secure," says Rhys Jones, chief innovation officer at Fundtech.

Although there is clearly corporate demand for mobile banking solutions, not all banks, it seems, see the business case for implementing them. "We've had approaches by non-financial entities looking for solutions for their end customers," says Mitchell of Luup. "They have multiple banking relationships on an international basis, but they are not seeing a solution being provided by their corporate banking entity as yet."

Early adopters in the mobile corporate banking space, such as Wells Fargo with its CEO Mobile service, which was piloted as early as 2007, took the leap of faith without building a rigorous business case. "We just had a gut feeling that everyone was going to use cell phones," says Steve Ellis, executive vice president, Wholesale Banking Group, Wells Fargo. Standard Chartered was among the first to introduce a mobile corporate banking solution in 2009, not so much in response to customers asking for it, says Thomas Wiles, director of transaction banking, but because it anticipated client demand for a solution that could make certain treasury processes more efficient.

At the SWIFT conference, Standard Chartered launched two new iPhone apps—Mobile Authorization and Trade Enquiry Service. Explaining the rationale behind its Trade Enquiry Service app, Wiles says, "A number of banks in the US and Europe outsource their letter-of-credit processing to us to support their corporate clients' Asian business growth. They need to know what's going on so they can service their clients better. We developed an application organized around their customers' transactions so that somebody in the UK, for example, can see what is happening with a letter of credit, or if it is a time-sensitive high-value transaction, they can search for a client's name and see what documents are presented."

With its base in developing markets such as Asia and Africa, which enjoy the highest ratio of mobile phones to bank accounts, Wiles says Standard Chartered was always "out in front" when it came to introducing mobile capabilities. However, in 2009 when it launched its SMS-based corporate banking application, take-up was limited. That changed, however, when smartphones and the iPad emerged. "Within a few months of the iPhone launch, more than 10% of the eligible user population downloaded it, and that was with virtually no marketing effort," says Wiles.

Deutsche Bank's Global Transaction Banking division partnered with mobile solutions provider Luup in 2009 to launch a cross-border mobile payments service for its banking and corporate customers and to develop other value-added mobile corporate banking applications. "Deutsche Bank identified stronger demand coming from developing markets rather than developed markets," says Mitchell of Luup, "In some of these countries roads are poor and retail utilities are few and far between. So if they can do real-time invoice presentment and payment at the point of interaction on a mobile device rather than receiving and transporting cash payments for an invoice, that is going to be much more efficient, secure and cost-effective."

If banks are to truly make their mark in mobile payments, Wiles says, "a go-it-alone strategy will not work." Most of the mobile money transfer services developed by telephone companies are what Wiles refers to as closed-loop—they operate only within a certain region and are not open. To open the loop, he says, telcos need to work with banks and the bank-supported international payment system.

That, however, may be easier said than done. Although some banks may be happy to partner with mobile network providers, not all see them as natural bedfellows. "Both banks and mobile network operators see the customers as theirs," explains Mitchell. "The network operators understand the device, and the banks can engender a level of trust and regulatory governance. They both want a piece of this massive pie. The question is, Will the network operators or the banks be disenfranchised?" Mitchell says the solutions Luup provides are "agnostic" and recognize the part both parties play in this space. ■

John Mitchell: "Corporates are starting to demand [mobile] solutions"

Thomas Wiles: "A go-it-alone strategy will not work"

The Working Capital Transformation

Companies are looking to technology to help them delve deeper into their working capital processes. By Denise Bedell.

The debate that has long raged over whether enterprise resource planning (ERP) systems can compare on a function-by-function basis with specialized treasury management systems is about to get more intense. As companies look at ways to dig deeper into, and reduce costs within, their working capital management processes, the systems they choose to do so become key.

Working capital optimization now requires an unprecedented level of visibility into all of the systems and information that make up the working capital cycle—from receivables, payables and inventory on the one hand to accounts, investments and liquidity needs on the other. Data must flow regularly and quickly, and be modeled and reported in sophisticated ways.

As a result, companies are changing the way they look at technology and are increasingly seeing the advantage of dedicating more of their budget to upgrading treasury and finance technology in order to gain longer-term cost-cutting benefits.

“Companies are really looking for an evolved view of how they use technology to manage treasury”

“They are evaluating the entire treasury work flow and taking a more transformational view of technology” —*Justin Brimfield, Reval*

ERP systems, treasury management systems (TMSs) and other solutions used for working capital improvement all have strengths and weaknesses. Which solution will work best for a particular company—be it using an ERP system alone, using an ERP and TMS in combination, using a smaller, specialized system focused on one or more element of the process or simply using macros and a spreadsheet—will depend on the individual company.

As the range of solutions grows, choosing the most appropriate one becomes more difficult. Companies must look at what resources they are willing to put behind a working capital optimization program. Doing so will determine the next questions they must ask—how deeply they are able to dig into their existing processes and make changes, what their goals are in terms of reducing costs and increasing efficiency in the different stages of the working capital cycle, and how to achieve those goals.

According to Enrico Camerinelli, senior analyst at consultancy Aite Group, improving working capital management continues to be a critical corporate endeavor. “Companies need to look at working capital right now in order to use working capital as a source of funding. If you can extend payment terms and reduce days sales outstanding and collection times, for example, you can use that additional cash for other activities and reduce inventories.”

Camerinelli says that if a company is really viewing its working capital as a source of funding, a treasury management system will provide the information: “The TMS provides information related to cash flow projections, payment terms, cash reporting and liquidity needs.” He adds that TMSs are generally more flexible and allow the treasury department to make decisions relating to the levels of payables, receivables and inventory a company should be aiming to make.

However, he also points out that for the TMS to help treasurers make simulations and analyze working capital effectively, “you need a good ERP system to provide the basic data.”

Mix and Match

Having both types of system working in unison might be the ideal, but maintaining two such systems is simply too costly and complex for many companies. Although the advent of software-as-a-service (SaaS) treasury systems—where you can purchase just the pieces you want and it can be delivered via a portal with no need to host the solution on internal corporate servers—can reduce that expense, there is still the ongoing cost of use to consider.

Mark Webster, a partner at treasury consultancy Treasury Alliance Group, says stand-alone ERP systems can still hold their own against TMSs: “If you know what you are doing and have the right systems, ERPs can be structured to do anything. Early on, their treasury modules were cumbersome, but they have become significantly better.” He says the key advantage of using ERPs is that they are integrated directly into the company’s accounting systems.

The ERP vendors worked hard to enhance the capabilities of their treasury modules, and certainly they have much of the functionality of a specialized TMS. China Martens, an analyst at Forrester Research, says ERP providers are looking for ways to expand usage of their applications and increase their flexibility. She says: “More vendors, such as Infor, NetSuite, SAP, and Syspro, are beginning to offer their customers graphical business process orchestration tools.” In other words, they are rolling out more user-friendly dashboards and graphics to make it easier for business users to both see, and make use of, the information that is relevant to them.

Vendors are also making use of new technologies, such as cloud computing and in-memory technology, to make deeper cash flow analyses faster and easier. In-memory databases allow for much faster processing of complex data, as they hold all the datasets involved in a particular query within the main memory, rather than having to access disk memory for each inquiry. Cloud computing allows for processing to happen across various different systems within the cloud in order to provide greater computing power, and thus faster processing times. Craig Himmelberger, director of the ERP financial solutions marketing at SAP, explains: “The real challenge with liquidity planning is processing and data collection. Having all of this loaded into a unified system with in-memory response time and the ability to make multidimensional views is a clear advantage.”

For all the advances that are happening, however, many companies will still be happy relying on Excel spreadsheets. With good data flows from accounts payable, accounts receivable and inventory systems, or from those modules of the ERP, a spreadsheet can provide all of the necessary information for a working capital assessment. Again it comes down to resources. The issues with spreadsheets are well known, however: risk of errors, risk of data changes, and the time and human capital involved.

Fine-tuning a strategy for improving working capital management depends on many factors, but one thing is clear: Companies generally see the advantages of investing in technology to improve these processes and are increasingly looking at such investments as part of a broader financial transformation. Justin Brimfield, senior vice president of corporate development at system supplier Reval, explains: “Companies are really looking for an evolved view of how they use technology to manage treasury across the board. Now, rather than putting in place a band-aid solution for one piece of the process, they are evaluating the entire treasury work flow and taking a more transformational view of technology.” ■