Making Strides with the Help of Technology

In recent years, treasury teams have faced one new challenge after another, from the global economic slowdown to a steady stream of new regulations, to low or even negative interest rates. Amid those challenges, they've looked for more assistance from their treasury technology, and vendors have responded.

"The treasury systems are evolving because the corporate treasurer is evolving," said Enrico Camerinelli, a senior analyst at technology consultancy Aite Group.

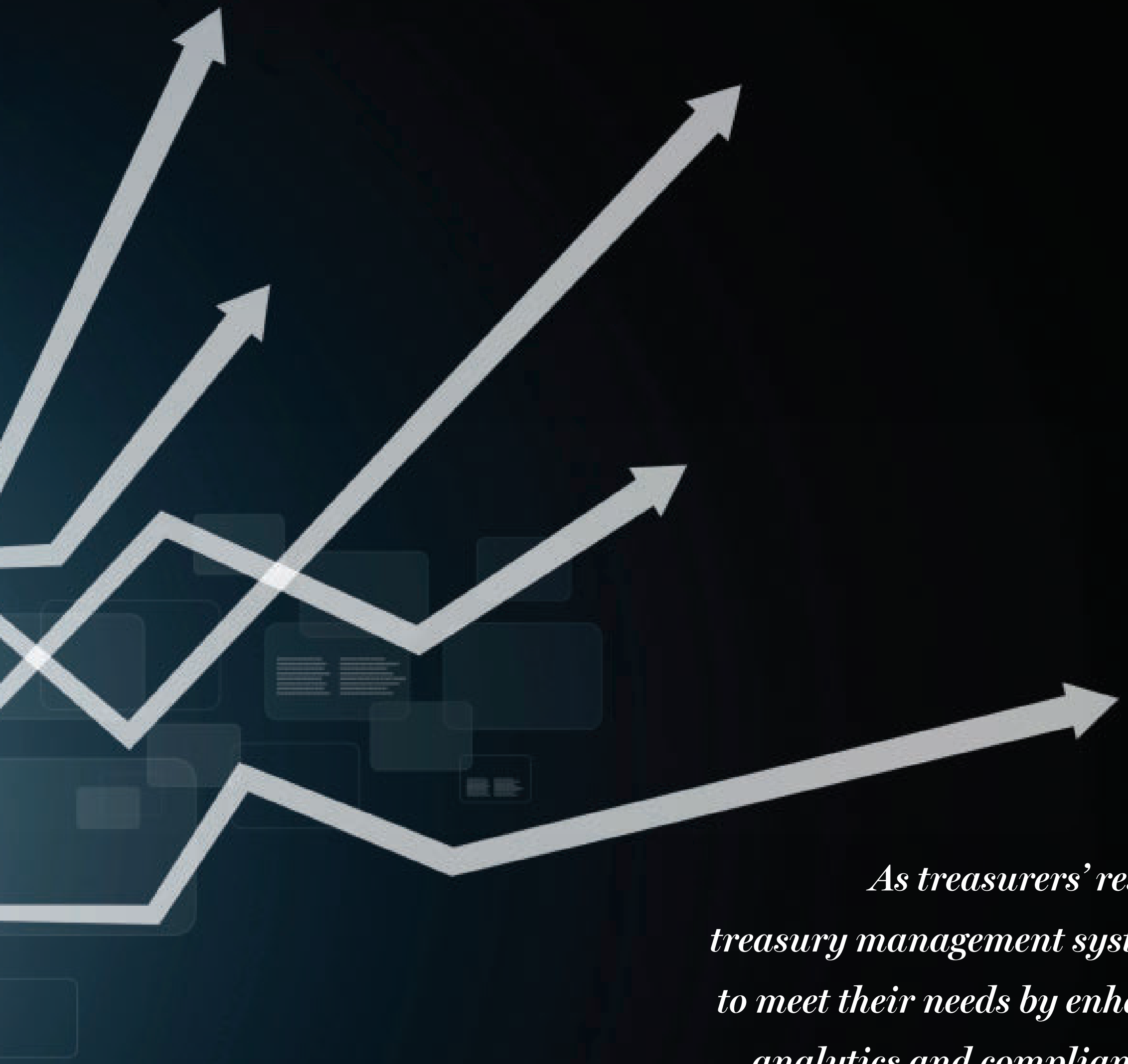
The changes in treasury management systems range from improved analytics to additional risk management and compliance capabilities. Treasury systems are also expanding into new areas such as supply chain finance and trade finance, and technology companies are also beefing up their systems' mobile capabilities.

Camerinelli said treasury systems vendors are putting the most effort into analytics.

"There is a general understanding and consensus that the analytics need to be more of a predictive or proactive nature rather than analyzing the past," he said. "It's looking at the ability of analytics to do better forecasting and predictions."

While treasury systems historically helped treasury teams achieve automation and efficiency, "the trend is moving toward combining that with decision support and decision optimization," said Jason Torgler, senior vice president of sales for North America at Reval.

"It's no longer acceptable for treasury systems to just collate and gather and consolidate and automate," Torgler said. Systems still do all that, but then go on to display the information that's been gathered and provide assistance in making decisions



As treasurers' responsibilities grow, treasury management systems are expanding to meet their needs by enhancing features like analytics and compliance and moving into new areas like supply chain finance.

BY SUSAN KELLY

based on the information.

Treasury technology is starting to give companies the ability to run what-if scenarios, Torgler said. “Treasury operations know the typical types of change—interest rate moves or currency fluctuations or seasonality around their business. They can factor those changes into their treasury operation and see what the impact would be, and they can run and save the scenarios to plan for the potential what-ifs.”

Craig Jeffery, managing partner at Atlanta-based consultancy Strategic Treasurer, said treasury management systems are starting to take on the “look and feel and approach of looking at information” of business intelligence software, including such features as better reporting and the visualization of risks and exposures and assets, by geography, by industry, and by counterparty.

The visualization not only helps the treasury team, he said, “but management, who may not understand treasury principles, can understand what they're talking about.”

Torgler said systems' decision support capabilities are important for such core treasury areas as cash forecasting and liquidity. He also cited “a more powerful push into exposure gathering or aggregation, whether it be on the FX side or the commodity side.

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their treasury systems right now around the collection of exposures, and a lot more around exposure analytics, to know what to hedge," Torgler said.

In the past, treasurers kept track of their exposures in such areas as currencies, commodities, and interest rates outside of their treasury systems. But given the recent volatility in the commodity and FX markets, they're interested in having all the relevant information—on their exposures, their hedges, and the hedge accounting—in a single system, he said. "Then they can make better hedge decisions and communicate that up through the organization."

Importance of Cash Forecasting

Corporate treasuries always focus on cash forecasting, but the importance of accurate forecasts was reinforced in 2008 and 2009, when the global financial crisis made credit hard to come by. Now the Basel III regulations and the likelihood they will limit big banks' interest in companies' deposits of non-operating cash, as well as the very low yields available on money market instruments, have again underscored the importance of accurate forecasts.

The interest in improved forecasting extends even to companies that are cash-rich, said Bob Stark, vice president of strategy at Kyriba. In fact, he said, such companies are leading the effort to fine-tune forecasts because with yields so low, shareholders are focusing on how much return companies are getting on their piles of cash.

"Even in a low-interest-rate environment, shareholders don't have a lot of patience with low-yielding investments," he said.

Stark said that while many companies used to content themselves with 80% or 85% visibility into their cash, that's no longer the case. "Now they need to understand exactly what they have today."

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> —BOB STARK, KYRIBA

And companies are becoming more sophisticated in the way they do their modeling. "They're asking for extrapolation and trending, using regression on historical transactions to find out where the trends are," he said. "Their thirst for more information and the sophistication in how they crunch those numbers to build the forecast are quite heightened."

Torgler said Reval's system has the ability to compare forecasts against what actually happens.

"Historically, treasury systems were good at gathering and consolidating forecasts but were horrible at analyzing the accuracy and performance," he said. "But the job's not done until you analyze the performance of your forecasts."

In the past, comparing the company's forecast with what actually happened was a manual process, but vendors have now pushed to give treasury systems the ability to compare forecasts with the actual data. "The systems now basically take these cuts of actuals as they happen and allow you to save them and lay them up against your forecast," Torgler said. "You can do almost daily forecast analysis to see 'How well did I do?' And you learn from that going forward."

Bracing for Healthcare Reform

Health Care Service Corp., a Chicago-based mutually owned insurance company that is the fourth-largest health insurer in the U.S., has leveraged a new treasury management system it implemented to improve its cash forecasting.

When the enactment of the Affordable Care Act pointed to big changes coming ahead for the health care industry, HCSC decided it was time to reengineer its treasury operations. The insurer, which has more than 150 bank accounts, 14 bank portals, and 70 investment accounts, had used a treasury system but still relied heavily on spreadsheets and the manual keying in of data. It wanted to centralize its information and automate the treasury's routine tasks to free staff members up to provide consulting to the rest of the organization.

And with the requirements of the ACA expected to create stress on HCSC's balance sheet, the insurer wanted to improve its forecasting so that it could manage its working capital better and improve the returns on its $10 billion investment portfolio.

HCSC selected Kyriba's system and put in place a custom solution that integrates 13-week operating and investing forecasts. The company worked with its custodian to come up with a forecast of investment maturities and investment income, using custom BAI codes to aid in the reporting of investment activity. At the same time, HCSC built a regression model in-house to forecast operating cash flows, which it is currently moving into Kyriba.

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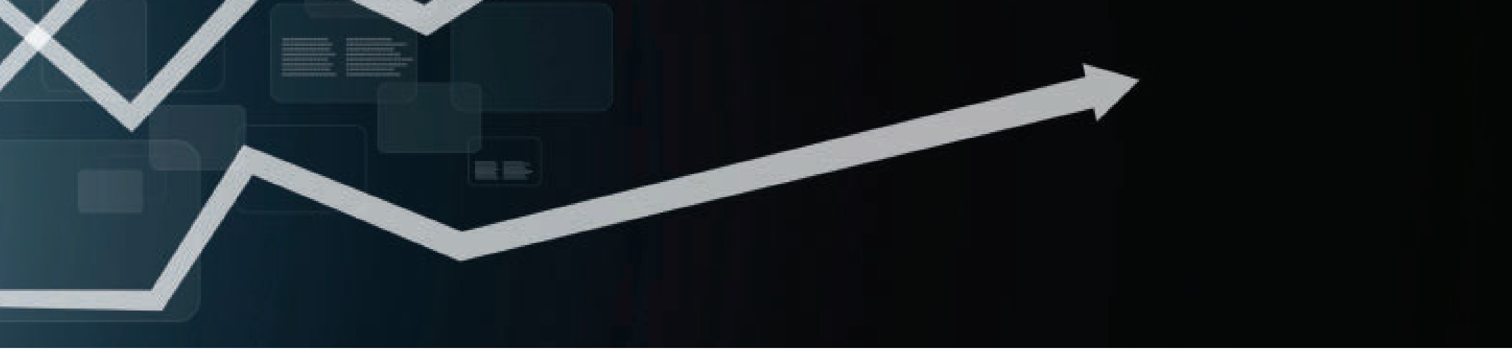

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and what that allowed us to do was shrink the cushion we had in our working capital and put that money to better use by investing it," said David Deranek, senior manager of treasury corporate cash and control at HCSC. "We had better clarity to what our working capital needs were on a day-to-day basis."

The improved cash forecasting allowed HCSC to shrink its working capital band from $500 million to $200 million, Deranek said. And just last month it announced that it will shrink working capital even more, down to the $50 million to $100 million range, he said.

The company estimates that investing some funds over a longer term provided additional investment income of $140 million.

Treasury Systems Becoming 'More Horizontal'

Kyriba's Stark said the selection process for treasury management systems these days reflects the extent to which risk management is now part of treasurers' portfolios. CFOs are getting more involved in the process of picking a treasury management system, and their emphasis is on risk management.

CFOs "see a treasury system as a risk management tool," Stark said. "The mentality has changed, and CFOs care about reducing risk. If CFOs care about that, then treasurers care about that, and systems providers care about that."

Treasurers' risk management responsibilities cover not only traditional treasury concerns such as hedging, but also operational risks ranging "from better controls to alignment with information security within the organization and reducing fraud and cyber crime," Stark said.

At the same time, treasury's traditional concern with the company's cash now extends to liquidity and working capital. While treasurers may share responsibility for working capital, rather than having sole responsibility, it's an area where they require additional tools, Stark said, as they work with the company's procurement and credit units on supply chain finance and receivables programs.

Aite Group's Camerinelli said treasurers are paying more attention to payables and receivables in part because of the way they can affect the company's working capital.

"Supply chain finance is one of the areas that is falling more and more under the control of the treasurer," he said, and noted the importance of analytics in determining whether a company has excess liquidity, in which case it might want to offer its suppliers dynamic discounting, or whether it needs cash, in which case its receivables might serve as a basis for financing.

Treasury systems are becoming "more horizontal," Camerinelli added. "They're trying to cover other areas that are becoming more and more a part of the daily job of the treasurer."

Strategic Treasurer's Jeffery noted interest among treasurers in payment hubs, which

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Going Mobile

In an age where consumers rely more and more on their mobile devices, treasury system vendors have had to step up to the plate to ensure that their products can be accessed on the go.

Jason Torgler, senior vice president of sales for North America at Reval, whose mobile app allows treasurers to analyze payment details, monitor global cash, and approve payments, cited clients' interest in being able to access treasury reports and receive alerts while they're away from the office.

"If you're out and about, you have access to some of the most critical treasury data, and you're receiving the alerts around these critical events," he said. "So you're able to have your finger on the pulse of what's happening in your operation."

Treasury and finance executives expect that any system will function on their phone or tablet just as it does on their computer, said Bob Stark, vice president of strategy at Kyriba.

Kyriba has mobile apps, including dashboards, reports, and approvals. But Stark said the company's clients "want to use the whole solution." As a result, the company did the work so that its treasury management system "would render the same on any device," he said.

"Their expectation is that it works on every device," Stark said. "That's what they're used to on every other kind of technology."

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he said reflected the increasing complexity that companies and their treasuries are dealing with, given payments involving multiple originating systems, multiple countries, multiple banks, and multiple formats. "A payment hub helps reduce that because it manages complexity and manages formatting," he said.

For the most part, treasury systems handle companies' high-value payments, rather than bulk payments originating in other systems, but Jeffery noted that some treasury systems vendors were doing work on payment hubs.

A survey conducted by Strategic Treasurer in conjunction with Bottomline Technologies found that treasury systems and payments were the top two areas where treasury organizations intended to make investments, with more than a third of organizations planning significant spending in each area, Jeffery said.

"We're starting to see treasury become more of a central hub for bulk payments, instead of handling that in other systems or bank systems," Torgler said. "Treasury wants to be the hub for that, and centralize and distribute." That goes back to treasury's interest in liquidity, he said. With a payment hub, "they can decide how to release these batches [of payments] depending on liquidity levels."

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Treasury systems' incorporation of new capabilities like those related to supply chain finance and payments are a response to treasurers' interest in having as many of the functions they need as possible on a single system, he added. "The move toward all in one, a lot is driven by these areas that are sitting out on the edges that have been handled by other systems that our clients are wanting us to bring natively within our system.

"The trend as we see it in the foreseeable future is that treasury is demanding more of a global enterprise platform where they can look at their entire operation all together on one system, as opposed to a separate cash system, a separate payment system, a separate exposure system, a separate system for managing hedging," Torgler added. "What we see in RFPs is they're wanting to have all of that. We've added things based on that trend."

"What pretty much every treasurer will prefer is that they don't have to go into multiple systems for multiple things," Kyriba's Stark agreed. "They don't want to go into this one to do their hedging, this one to do their forecast, this one to do their bank fee analysis. They're looking for a bit more convergence."

Cloud Versus Installed

Another trend in the market for treasury management systems is the shift to using systems offered via software as a service (SaaS) rather than installed systems.

A 2015 survey of more than 400 organizations in North America, Europe, and Asia Pacific conducted by the Association for Financial Professionals found that more than half (54%) of companies that use treasury systems have installed systems and just 33% have SaaS systems. But the cloud is more popular in the U.S., where 48% of the companies that use treasury systems say they have a SaaS or cloud system, while just 38% have an installed system.

Strategic Treasurer's Jeffery said cloud adoption is highest among companies using the simplest types of treasury systems. The biggest companies still tend to use installed systems, but those installed systems often involve some use of the cloud.

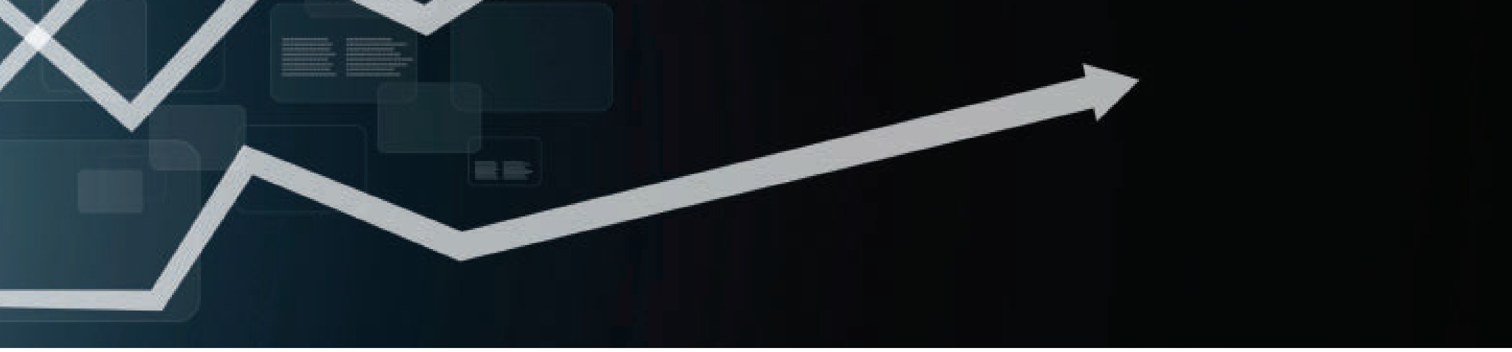
"Some of the big vendors are cloud-enabling everything," he said. "Even if it's an installed solution, they will host it on units you don't have to own, and they will maintain it and put the patches on there."

Automatic Upgrades

When CA Technologies, a $4 billion software company, was choosing a new system, the treasury team knew they wanted to move to the cloud. After all, the company's legacy system, an installed treasury workstation, had gone five years without an upgrade. With a SaaS system, CA would get upgrades automatically.

"We like the idea that the technology company manages the software for us, the software remains current, upgrades are pushed to us," said Ken Markowitz, assistant treasurer and vice president at CA Technologies.

CA's treasury team, with 95 banks and 325 bank accounts, wanted a system that would allow it to accelerate its processes and increase its visibility, as well as freeing staff



from routine tasks. It aimed to automate its work and eliminate all manual processes with a system that it could deploy globally.

The company selected Reval, and also chose to work with the partners that Reval has integrated into its platform, including Fides for balance reporting, FxAll for derivatives trading, and ICD for money market investing.

"Now we have everyone around the world on one platform, which we've never had before," Markowitz said. "We have a single source of the truth—so everyone is using the same platform, everyone is using the same reporting formats, and when I pull data, I'm pulling from the same source. So there's never discrepancies between the way that the data is coming out, and I don't have to spend time reconciling one report to another."

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Regulatory Compliance Driving SaaS Usage

Reval's Torgler argued that the regulatory environment is another factor encouraging companies to use SaaS systems. As governments roll out one new regulation after another, treasury groups see the appeal of using software that is constantly being updated, he said.

He pointed to Reval's effort to update its platform in response to the post credit crisis trend to collateralize derivative portfolios—an indirect consequence of Dodd-Frank. Clients that wanted to use the overnight indexed swap rate rather than Libor to price derivatives meant sourcing "market data and adjusting valuation models" in the Reval platform, he said.

As soon as Reval did the update, "every single client is now able to choose to discount with Libor or OIS," Torgler noted.

Certainly there have been some regulations in recent years that resulted in more work for treasury, including rules related to Dodd-Frank, SEPA, and FBAR. And this year treasurers are dealing with new SEC money fund regulations, which will require some funds to use a floating net asset value instead of a stable $1-a-share price and employ fees and gates. Those regulations take effect in October.

"You're either compliant or you're not," Torgler added. "That definitely holds a strong area in our product road map: compliance."

Strategic Treasurer's Jeffery noted that treasury systems vendors have added bank account management functionality to help companies comply with FBAR and the reporting it requires, as well as to help companies enforce controls around their bank account management.

Moving Quickly to the Cloud

When David Miller, treasurer at Hunt Companies, a privately held real estate development, management, and investment company, set out to choose a new treasury management system, one of his criteria was that the system be cloud-based.

"We wanted a fully Web-based platform that had robust technology and a communications line already existing with the majority of banks, so as we grew, we weren't having to implement something new with a bank that the vendor didn't already have," Miller said.

Hunt does 90% of its business in the United States, and Miller has two treasury staffers in Texas and another two in New York City, where he's based. In 2013, Hunt acquired Centerline Capital Group, a real estate and mortgage banking company. Both Hunt and Centerline had treasury systems, but neither system was capable of handling the combined companies, which gave the task of choosing a new system additional urgency.

In a selection process that started in the summer of 2014, the treasury team considered five different vendors. After signing a contract with Kyriba the day

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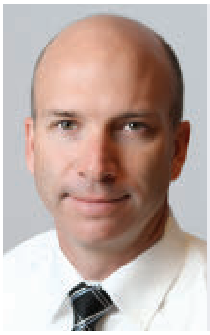
before Thanksgiving and having a kickoff meeting with Kyriba in mid-December, Hunt was live on reporting with all of its banks by the first week of January 2015.

Miller said that such a speedy implementation is "very unusual, but it can be done." He cited his "strategic relationship" with Hunt's banks, and noted that he kept the banks up to date as Hunt was going through the selection process. The company's banks "knew who the finalists were; they had a project team ready," Miller said. "The day I said I was ready to go, they were prepared to act."

Since then, Hunt's treasury team has implemented Kyriba's payments module and integrated the treasury management system with its general ledger so that all cash transactions done in the treasury management system post automatically. With the company's previous workstation, only 10% to 15% of transactions were posted automatically, and the rest were entered manually. The treasury team and the company's accountants have written close to 300 rules guiding the posting of transactions to the appropriate account and continue to refine those rules.



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Miller noted that the new treasury management system generates about 100 different reports. "Those reports, if done before, were manual. But in most cases they just didn't exist," he said. "The flow of information now is incredible, having everything in one system and being able to generate reports across banks."

Hunt's treasury is still implementing additional modules of the system, Miller said. "We're going to be implementing forecasting, a debt module, and an investment module to track our fixed-income investments. We do use the system today to manage all of our bank accounts.

"We also use the system to manage our monthly account analysis," he said. "Someone used to spend one or two days a month doing that, and now it's 15 minutes a month."

Miller said the new treasury management system has given the company "total visibility in one platform across the enterprise," as well as centralization that allows his geographically dispersed staff to do all their work in one place.

He also appreciates "being able to manage and see all the bank accounts we have across the enterprise, in one place," as well as the fact that no matter where he is, he can access the treasury management system. "As long as I'm on a Web-based system, I can get into my accounts and manage treasury," Miller said. "From a business continuity standpoint, if I can't get into my office, it doesn't matter as long as I can get onto the Internet." T&R

Selecting a Treasury Management System

Implementing a new treasury management system represents a considerable investment for a company. When it comes to system selection, David Miller, treasurer at Hunt Companies, recommends spending the time to understand each product.

"The way it's demoed versus the way you actually use it are different in every situation," he said. "Until you actually use the product, you can't fully understand the way it works." If the vendor allows it, he suggests doing a proof of concept with one of the company's banks.

Bob Stark, Kyriba's vice president of strategy, noted that many companies now involve their IT staff in the process by having them assess the systems they're considering.

"Treasurers are inviting IT resources into the discussion to be sure what they're discussing meets the IT department's standards," he said. "That wasn't a discussion that even happened two or three years ago."

Treasurers should also envision how they want their new treasury management system to work before starting to implement it, "so you're not six months into the implementation thinking, 'I wish I would have done it a different way,'" Miller said.

"Every company is different," he added. "I think there's a right product for every company, yet not every product is right for every company."