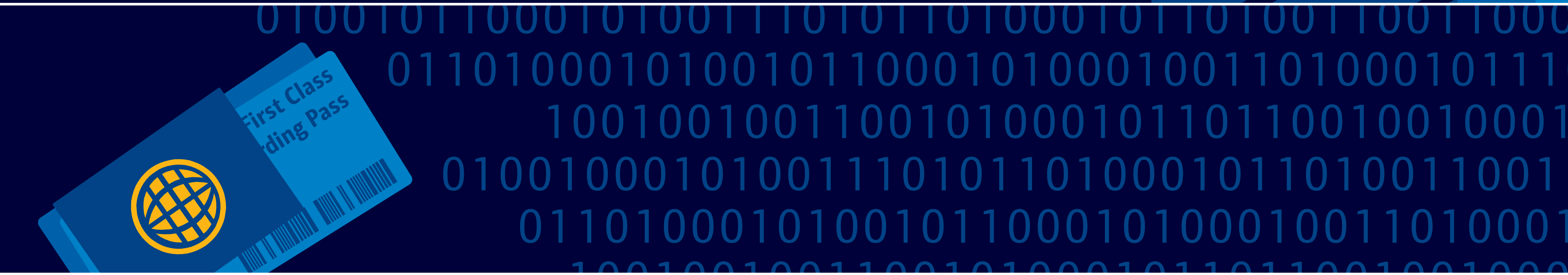

Passport to Success

Optimizing treasury technology in the connected age

To enjoy the benefits of technology, Tom Durkin from Bank of America Merrill Lynch argues that treasurers should be thinking about an extended journey, not a day trip. He explores the waypoints.

In the face of increasing pressures on global commerce and the "do-more-with-less" corporate mantra, the need of certain professional functions — notably treasurers — to become strategic assets to their organizations is readily apparent.

For the modern treasurer, that aim means adding value and being efficient. This requires skill, knowledge, experience — and technology. And as far as the latter is concerned, building a coherent and optimized treasury function is a journey that takes planning and foresight, a keen understanding of what technologies are available now, and, importantly, how they might evolve.

Moving to higher ground

While a key theme within today's technology landscape is "ease of use," the real quest for organizations is "efficiency." For treasury teams, this means shifting from a reactive stance to one of proactivity. In helping treasurers and their teams on their journey from being a tactical function to one that has important strategic value, technology is now seen as a vital component. But it is one that changes rapidly.

Whether success in strategic mode is derived from how treasury integrates with its banks, how it acquires better data, or its approach to automation, it is clear that sustaining the advantage requires a long-term engagement with technology. This sets the stage for the eventual arrival in treasury circles of cutting-edge tools such as the latest Artificial Intelligence (AI), Robotic Process Automation (RPA) and advanced Application Programming Interfaces (APIs).

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Key takeaways

- Tech advances are creating a "connected age" for businesses
- Standardization is making it easier for banks and corporate clients to share information
- Banks can become the center of their clients' data flows — providing a consolidated view to enhance decision-making

The journey starts

Any corporate relationship with a bank starts with onboarding. Commonly, it is both a labor- and paper-intensive process. This is where digital processes begin to show their strength. This is not simply about making electronic copies of paper for ease of movement. It is about making those processes fully digital from the outset. In doing so, it allows the focus to shift to the possibilities of data.

Where the end-state is about harnessing a better data structure, whether that is for account opening, KYC, changing or adding signatories — or any of the other processes — data-enabling through true digitization sets up an organization to benefit from enhanced predictive analytics. This creates a whole new way of viewing the business, but first the pathways must be opened.

THE FUTURE IS NOW

Tech advances are already boosting treasury efficiency and automation.

AI – Artificial Intelligence

RPA – Robotic Process Automation

API – Application Programming Interface

Keeping the routes open

Direct connections between banks and treasury systems via APIs are not new per se. The changing shape of the payments space, driven in the main by the revised Payment Services Directive (PSD2) in the EU, its encouragement of competition and the arrival of a host of new FinTech solutions, does however create an interesting developmental framework for this technology. It makes the data exchange more client-specific and provides for a better exchange of that data. Today's payments model is typically one-way, from initiation onwards. APIs open the door for a two-way conversation.

A treasurer creating a cash forecast, for example, may wish to supplement that with data beyond what is in the regular bank report. This may not include certain elements, such as pending transactions. Instead of acquiring data from multiple sources (or not acquiring it at all) where APIs provide connectivity, they effectively create one data repository for treasury to access. In terms of better forecasting, this presents an immediate advantage.

However, banks in the retail space may feel less positive. Is PSD2, the push for APIs and the notion of "open banking" that they deliver a license for FinTechs, vendors and other non-banks to disintermediate them from their own customer base? Possibly, in terms of maintaining the relationship at the front-end. But banks have customer data on their side. In the corporate space, this is gold dust. It is incumbent upon the successful bank to shift its status, in the eyes of its clients, from one of "assistant" to that of "valued advisor."

A bank should be in a position to understand more about its clients' financial flows than perhaps even its clients do. With rich data on elements such as working capital movements, counterparty payments and trading partners, for a bank to be able to tie that information together, it creates a more robust and informative view of the client.

And of the FinTechs? They focus on payments niches; they will not tackle the entire spectrum of corporate activity. Banks own the broadest possible landscape around relationship data. The better they harness the end-to-end relationship view, making it more strategic, the more it becomes a pillar upon which they build out that relationship.

Two-way conversation

APIs can facilitate bank/treasury data exchange

- Working capital
- Counterparty payments
- Trading partner activity

Traveling with banks

Forward-thinking banks will not be dismissing the FinTechs but will instead be seeking to collaborate with those that have the best solutions in regard to open banking. Seeing the competition as a collaborative opportunity could even change the way the traditional partner-bank approach is modeled. With better APIs and improved integration, instead of sending MT 940s over the SWIFT network, networks could be expanded to deliver considerable efficiency upsides for all parties. Even SWIFT has an opportunity to support API progress: Its GPI project is all about interaction with SWIFT.com to pull reference information.

Expansion of thought around open banking and APIs in general could even see exposure of elements of the banking back office that are not traditionally made available to clients. Why not open up the bank's currency holiday calendar to help clients better predict and manage their payment run dates, for example. Or perhaps offering an additional review of individual payments by executing an API validation against the correct payment templates in the client's ERP to prevent fraud.

Moving in the same direction

APIs are a means of adding value for all stakeholders, but treasurers certainly would not be interested in curating a large collection of APIs for each banking relationship. Equally, they are not going to give up on standardization as new technologies emerge.

It is apparent that SWIFT and the forward-thinkers in the banking community understand this. The push for standardization, to help create a better data flow environment for all stakeholders, is ongoing. Support is offered through programs such as the SWIFT-led Common Global Implementation (CGI) and its multiple ISO 20022-based projects. Extending this to APIs is entirely feasible, given their importance.

Engaging gear

Of course, the real benefit of any technology is only experienced if it is used. Make it a chore by neglecting user interaction with it, and soon it becomes a failed venture. Great strides are being made in this respect in the mobile space.

Mobile phones and tablets are almost ubiquitous now. The UI/UX is vital on the consumer side and the provision of one-to-one, as opposed to a one-to-many, experience can make or break a relationship. As banks develop their focus on the mobile sector, consideration of the user experience (UX) and user interface (UI) is being informed by close client contact.

It is as important now for banks to learn first-hand what corporate clients want and need, too. Indeed, a successful product-development timetable and roadmap rests on talking to and understanding user needs. The simple view is that treasurers are bringing their consumer experiences and expectations of a polished UI/UX to their professional lives so that is what banks must deliver.

From a global transaction services standpoint, properly considered UI/UX elements open the door for easier transferral of approvals, for example, further up in the organization. Anything that helps remove the need for ever-changing (and repeatedly forgotten) passwords and the pervasive drawerful of access and authentication tokens will be successful. If user ID and digital signing can be moved to a mobile device, then the user experience of that payments system is enhanced. The journey from touch ID on a personal mobile device, to biometric approvals for corporate payments on the move, is short.

At the crossroads

Corporates have secured bank support for standardized file formats for incoming transactional flows. The next opportunity is how to aggregate those flows to improve straight-through processing. There are an increasing number of options for how and when people want to pay or be paid, and so companies must possess the flexibility both to respond to that shifting dynamic, and be capable of harnessing the data flow between them all.

For many reasons, data is often fragmented across client organizations. Banks can become the center of all their clients' transactional data flows, across systems and from multiple inputs. Provision of a consolidated view of all flows is the bedrock of a digital banking relationship.

Multi-banking corporates will naturally also desire that same single view. Here, just as aggregators in the consumer space can provide a holistic view of many insurance providers, for example, multi-bank reporting services have emerged.

If one bank collects all the reporting information, it can provide a standardized file to its client. This could be made possible through the adoption of APIs, giving treasurers real-time views of all their positions from a dashboard of key data.

Banks are harnessing multi-banking data and offering clients the ability to see it the way they want — whether via a mobile device, through TMS or ERP, or even in a native spreadsheet.

Indeed, successful aggregator banks will only be those able and willing to make the investment in technology to leverage the changing technology environment.

Access all areas

Consumer choice in digital media is unlimited. Subscribers to content providers choose how they receive that content. If, as was mentioned earlier, treasurers increasingly call upon their consumer expectations, provision of data with a high degree of configurability — as distinct from customization — will be necessary, too. This will inevitably bring an omni-channel focus for responsive banks. Those that don't respond risk being marginalized.

However, as digital connectivity increases so too does the threat of cybercrime. Measures taken to encourage adoption of technology must not jeopardize client data: This is the number one priority of most treasurers. It is essential that the UX finds a balance between security and friction.

Because the cyber threat is ongoing, both banks and corporates must adapt to changes in the security landscape. Where there is a need to offer more friction within systems to prevent negative outcomes, then it must be deployed.

Waypoints

Treasurers should be talking to their banks, and vice versa, to be sure all stakeholders are on-message about security and indeed the whole evolution of technology. But beneficial discussions around best practice will only be achieved when banks assume the trusted advisor role.

The conversation around security and friction, for example, should never be reduced by the bank to an annual "tick-box" exercise. Ongoing dialogue can enable all parties to take advantage of changes in technology. Cut communication lines and this opportunity ceases.

In fact, if a bond of trust is to be formed, banks need to plan product development and availability alongside treasurers, not in isolation. Only through collaboration can banks be actively seen to be moving away from the cynical product-pitch toward harnessing the capabilities of technology and truly adding value.

The never-ending journey

Banks can continually adjust their digital capabilities as technology and client needs change. Treasurers and their companies will achieve the best outcomes when working with their banks to help define each leg of that journey. Progress will not stop. In the next few years we may see the benefits of distributed ledger technologies, such as blockchain, deployed in a more open environment. We may witness the focus on identity management finally unchain solutions from single legacy portals.

Whatever transpires, businesses will increasingly run on deeply connected technology rails. Treasurers need a deep understanding of this notion. In conversation with their banks, they should be thinking how best to harness that opportunity because only by leveraging these connections for efficiency will the strategic treasurer become a reality. It is indeed an epic journey.

What is PSD2?

PSD2 updates the existing EU framework for the regulation of payment services under the original Payment Services Directive (PSD1), which, among other things has created a single payments market within the EU by enhancing competition, increasing transparency, and standardizing the rights and obligations of payment services users and payment service providers.

PSD2 broadens the scope of payment services regulation in the EU by introducing third-party payment services providers (TPPs) and introduces new cybersecurity and complaints-handling regimes. The regulatory technical standards for strong customer authentication and common and secure open standards of communication (RTS) supplement PSD2 and the interaction between payment service providers and TPPs, including;

Here are the basics:

- PSD2 will require banks to allow TPPs access to their clients' accounts (upon the clients' consent), and provided certain conditions have been met
- APIs will facilitate this access, along with identity verification and authentication
- TPP access to accounts maintained with banks is intended to enhance competition and lead to new types of payment and account aggregation services

Treasurers should contact their banks now to begin exploring the potential benefits.