The need for a more intelligent treasury

The evolution of technology continues to play a pivotal role in the creation of a digital world that is continuously being transformed by innovation – be it in the consumer space with self-driving cars or in the corporate space with distributed ledgers, artificial intelligence and machine learning. This evolution presents a set of very dynamic problems and opportunities for the finance function, which has historically been used to a high degree of stability and control. In a digital world, intellectual curiosity, flexibility and self-motivation are the new core skills.

For treasury, however, the challenge isn't just a behavioral one. Historically, treasury has had to constantly adapt to change brought about by external factors. The financial crisis of 2008, for example, placed a renewed focus on adaptability and the need for greater strategic insights.

In 2019, considering the ongoing impacts of globalization, rapid technology evolution and the rise of disruptive business models, one can see how pressure on the treasury function to adapt and evolve will continue to increase.

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To help you stay ahead, we have identified eight overarching trends that are driving opportunity, making business easier and enabling a more intelligent treasury.

Trends impacting treasury:
- Innovation
- Dynamic business models
- Best of breed
- Strategic insights
- Intelligent automation
- Real-time processing
- Centralization
- Realigning risk
Innovation
Managing and embracing innovation is the biggest driver of change in business today. Digitization and eCommerce have empowered consumers and created new methods of transacting. Open banking in the EU has enabled citizens to manage banking services from a single platform of their choice. Combine this with Application Programming Interfaces (APIs) and you have a marketplace that actively encourages the disintermediation of services and suppliers. However, these consumer pressures on businesses also create opportunities for treasury: potential new partnerships, extended networks or the provision of new services. This could also mean using new methods, such as distributed ledger technologies, which seek to make accounting continuously auditable, among other developments. Innovation is forcing companies to evaluate how they provide services and explore new business models and opportunities for global growth without borders. This creates a second theme for treasury – dealing with dynamic business models.

Dynamic business models
Dynamic business models are a reflection of the process of restructuring. Restructuring isn't a one-time event but rather multi-threaded, covering everything from core business operations to acquisitions, spin offs and divestitures. Changing business models force companies to re-assess other aspects of treasury such as the impact on credit and debt capacity, regulations or separating a core business function – not just moving processes to low-cost shared service centers. In the digital world, new business models are continually emerging, often disrupting traditional business models. In every case, treasury has to adapt and continuously integrate, build and redefine its core services.

Best of breed
Building a solution in a dynamic environment requires a broad skillset and considerable experience. A treasury’s technology team will typically have experience with change given the impacts of PSD2, Euro and regulations. But, the increasing pace and cost of these changes are the real areas of concern. Treasurers have developed skills in system integration due to the need to solve for these problems. As a result, the focus has moved from one perfect solution – such as a highly complicated but sophisticated Treasury Management System – to a hybrid model where the focus is on maintaining a master reference data set with data sources and processing systems clearly defined. Treasury can now choose best-of-breed solutions for specific areas such as FX trading platforms, risk management and cash flow forecasting building on a maturing data landscape.

Strategic insights
Treasury, and the finance function as a whole, generate huge quantities of data – both structured (such as transaction logs, FX confirmations, etc.) and unstructured (such as authorized signatories, revolver agreements, ISDAs, etc.). The challenge of capturing this information is compounded by the need to also capture behavioral data and other more complicated information sources in response to fraud and cyber risk concerns. Part of what’s driving this is the goal to monetize data and the need to access the information itself – particularly as part of a reference data strategy. For treasury, the opportunity isn’t just in having the right information; it’s the correlation of multiple sources to create insights. Cash flow forecasting and visibility of cash have been challenges for many years, but a maturing reference data landscape and best-of breed solutions, can enable treasury to evolve from operational management to strategic insights.
Intelligent automation

If you’ve optimized your reference data, leveraged best-of-breed solutions and fully integrated them to drive strategic insights, the next area of focus is how to lower costs and increase efficiency. It’s possible to use automations such as robotic process automation (RPA) and machine learning to generate insights faster and augment capabilities to create business intelligence. For example, rules-based sweep automation, is common within many liquidity products. Intelligence in this instance seeks to apply a logical decision framework, in other words, “if this, then do that, else do that.”

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Real-time processing

Business models are dynamic, in part, because of consumer pressures around digital commerce, but also because we live in an increasingly real-time world. Workflow optimization, APIs and even the notion of updating a distributed ledger are all examples of technology evolutions based on the need to do things faster or in real time. We are used to this in some aspects of the financial ecosystem, such as credit cards, which tend to clear in real time. Increasingly, businesses are demanding real-time transactional capabilities across all aspects of their supply and delivery value chains. As an example, to keep Days Inventory Outstanding low, a shopkeeper maintains minimal stock levels by ordering smaller batches more frequently. If the driver has no credit with suppliers, a need for real-time settlement exists with the delivery driver. Currently, this can only be done using a credit card or by making the payment at point-of-sale. While you can still do COD (Cash on Delivery), the cash handling security implications create their own set of problems. How about Pay on Dispatch? Before the delivery driver makes his rounds, an automated request-to-pay is sent to the shopkeeper who has to pay for the goods before they are delivered. The shopkeeper preserves their cash float. The wholesaler has less credit risk. The delivery driver has less cash or security risks (and can make an efficient round as they are only routed to those who’ve paid). Regulators have recognized the need for value now, and real-time payment systems are emerging on a global basis. For treasury, this means a move from batch processing to real-time processing. Continuously clearing and settling, every day, everywhere.

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Centralization

Against a backdrop of continuous change, constant drivers in a treasury function remain: control, compliance, risk management, cost efficiency and capital optimization. The challenge is correlating these with the need to operate 24/7/365, globally. Control is the key, enabled by a move from a decentralized (operational and controlled) to a centralized (automation and oversight) structure. With a strong governance framework and use of centralized structures that concentrate knowledge, processes and operations, the treasury function can move from process execution to oversight and control. Or, put another way, from process optimization to end-to-end delivery. For many years, the trend in treasury consulting has been to optimize process steps. This is no longer the source of the highest return. While efficiently executing steps of your liquidity processes is still important, the focus has shifted to output-centric metrics, or key performance indicators (KPIs). These KPIs are indicative of overall value, rather than faultless iteration. They allow use of structures for functional solutions – On Behalf Of models, virtual accounts, constant currencies, etc. This allows treasury to remotely control its dispersed operations across the globe in real time.
Realigning risk

Technology is clearly an enabler for much of the transformation identified within these trends. It contributes to the overall business of treasury strategy, management and control, but the benefits are tempered by emerging risks with cyber security, fraud, continuity, capacity and applicability. It’s possible to over automate. For example, the balance of capital allocation versus return/reward is not something that a machine can easily replicate, although they are increasingly capable of providing information from which to make the decision. Using technology means understanding its limitations, risks and control mechanisms. Cyber fraud means risk management will be an area for continual investment for treasury. Technologies can also be applied to other risk issues. For example, location services can help with understanding typical behavior associated with executing authorizations or payment requests. Behavioral monitoring can help with understanding why decisions are made or strategies are executed. Comprehension will remain a focus as the industry brings more information to bear. Fundamentally, treasurers must realign their risk perspectives and discipline to the digital world.

The path to a more intelligent treasury

For today’s treasurer and their team, embracing these trends and understanding their causes, impacts and potential solutions will be critical to the next evolution in the treasury function. Not all of these trends will be relevant to every organization, nor will they replace the intellectual capital of people, but in advocating and explaining them, we stand with you on the path to a more intelligent treasury.

GTS Advisory

Our Global Transaction Services (GTS) Advisory team consists of former corporate treasurers and practitioners, combining decades of treasury experience. With ten members located across the globe, we offer advisory services to our most valued clients to help them meet their strategic goals.

GTS Advisory insights can include subjects such as working capital optimization, M&A, operating models, risk management, capital strategy and innovation. Support is often hands-on and on-site, and our advisors frequently help clients build strategic treasury roadmaps, inform a capital or hedging strategies, or prepare change management business cases. We deploy the team as necessary to help address short-term challenges, as well as to realize long-term treasury objectives.