

Technology

Digital dreaming

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The COVID-19 pandemic exposed weaknesses in treasury systems and processes that treasurers are now looking to address via digital technologies.



Five years ago treasurers would have “run a mile” from the topic of digital technology, says Royston Da Costa, Assistant Group Treasurer, Ferguson plc. “Back then, treasurers weren’t that comfortable talking about Cloud technology,” he says. “But the COVID-19 pandemic has forced a change and digital technologies are now seen as necessary. No one wants to go back to what things were like before.”

The COVID-19 legacy of increased remote and hybrid working environments means digital transformation is key to thriving in the next decade, says Chris Schutte, Manager at corporate financial consultants Actualize Consulting. “Emerging technologies are changing how we do business. For treasury departments, the use of a treasury management system [TMS] will increase overall visibility for better-informed decisions, while mitigating the risk and loss of efficiency that comes with manual tasks.”

Michael Levens, Global Head of Payments at consultancy Delta Capita, says as industry in general has shifted to a new way of working, so too have corporate treasuries. "There has been a shift in the way that many corporate treasuries operate, moving away from the manual processes of the past and embracing new technologies and solutions to make themselves ready for the future," he says. "Given the fast changing pace of the global economies treasuries have had to balance the aspirations of more digitisation and automation with the need to better manage broken risk processes and core regulatory asks."

Treasuries are now more than ever looking at ways to optimise processes and hence reduce operational cost, he adds. "With a new wave of digital enablers covering everything to be digitalised from any type of assets to central bank money, there are numerous use cases that treasuries are examining to improve cost margins, especially with those scenarios that have high repeatable transaction volumes and existing manual processes."

Writing in the Association of Corporate Treasurer's (ACT's) International Treasury Peer Review, Schutte says incorporating a digital treasury function enables a treasury team to focus on critical tasks "with less distraction, providing strategic insights for your organisation and enhancing controls". As you look to start incorporating automation to eliminate errors and streamline operations, the first place to start is identifying whether a TMS would be beneficial.

While Ferguson has deployed a "fair bit" of digital technology, there is still much more it can implement, says Da Costa.

"There's a balance to be struck between what digital technology is necessary to do your job as a treasurer and also what is necessary from the commercial side of the business."

For many treasurers, digital still means "moving from paper and a physical signature to email communications", says Naresh Aggarwal, Associate Director – Policy and Technical, ACT.

Digital is often defined as straight through processing (STP), but some treasuries are still only part-way through a digital journey, he notes. STP typically means processes are automated and there is little or no manual intervention. "A treasury might have a certain level of STP, but because of internal controls, documents may have to be printed out to be signed off. There is often a disconnect between the corporate culture and what it is trying to achieve and the delegation of authority."

The most challenging processes for treasuries can be reporting, which is often manual and therefore time-consuming. "A big question today is how can companies move towards STP to have more real-time visibility while providing more informative reporting to key stakeholders," says Aggarwal.

A corporate treasurer's digital aspirations often will be tempered by the capabilities of its partner banks. Ferguson's banks offer "fairly digitised" solutions, says Da Costa, but much of it is "low-hanging fruit". However, with a TMS and cloud technology, a treasury can think about its digital aspirations, and what it can implement on a plug and play basis, particularly with the advent of application programming interface (API) technology.

"You cannot implement everything at once; for Ferguson, progress is one step at a time. We are cautious because we want to be confident that what we are doing is safe and correct," he says.

Writing in the ACT peer review, Roshun Tulken, Group Treasurer, at distributor Mantrac Group, says the company spent six months conducting a global bank review and taking the time to select the right bank for each country from a digital capability perspective.

A capital-intensive business with high working capital requirements, Mantrac was seeking to make its cash management processes as efficient as possible. When Tulken joined the company it was operating with close to 100 bank branches with businesses manually tracking balances and some of the local banks had poor cash management capabilities, often paper based. Real-time visibility was also challenging, due to the lack of reporting and sheer number of banks, so the treasury operations were not efficient, he says.

In addition to choosing the right banks, Mantrac implemented a TMS, which gave it intraday visibility of cash balances. A direct connection to the Brussels-based financial messaging system SWIFT enabled the company to reduce its reliance on manual transfers and cheques and move to electronic payments across the group.

"Ultimately we were also able to vastly reduce the number of banks we were using, which streamlines operations and improves controls," he says. For cash collections, the company has rolled out mobile money and e-wallet collections solutions, to move away from cash and cheque. This has reduced the clearing time, while also reducing the risk of fraud.

For Ivan de Crescenzo, Financial Analyst at Italian energy utility Tirreno Power, an overriding theme in treasury is digitisation. Much of this has been driven by changes to Italy's electronic invoicing laws that became effective on 1st January 2022.

de Crescenzo, says an overriding theme in treasury is digitisation, driven largely by changes to Italy's electronic invoicing laws which came into effect on 1st January 2022. Under the rules, in certain business-to-business cross-border transactions Italian entities will have to report details of transactions to the Italian tax authority under the same rules and processes that apply to mandatory e-invoicing between parties established in Italy.

Digitisation is “increasingly crucial” to meet the requirements of the new laws, he says. Corporates must receive digital documents from banks, not least because this makes life in treasury much easier, particularly with regard to reporting. “To be blunt, I would actually ditch a bank if it was unable to digitise documents for the accounts we have with them.”

de Crescenzo’s digital aspirations are focused on cash forecasting – understandable in an industry currently hit by turbulent global energy markets. The ability to more accurately forecast cash flows is becoming crucial. Tirreno Power’s treasury is focused on attaining tools to improve forecasting and give a better outlook on “how the numbers will move”, he says.

“Gas prices are skyrocketing and while we have tools for cash prediction, it is time for us to invest even more in machine learning and other technologies that will give us more sophisticated features,” he says. “The market is so complex now and that is why we must prioritise forecasting.”

Patricia Hines, Head of Corporate Banking Research at analysts Celent, says while year after year, corporates rank cash forecasting as a top priority, “they still struggle with basic cash visibility”.

Corporate treasurers continually indicate interest in real-time capabilities for statement data and payments, but little progress has been made as corporates are largely satisfied with their existing corporate-to-bank connectivity options, she notes.

“Corporate treasurers are pursuing technology solutions that offer either software as a service or Cloud platform deployment, which much better suit departments with limited IT resources,” she says. “Treasuries are pursuing robotic process automation and artificial intelligence [AI] primarily for cash flow forecasting and cash application (receivables automation).”

Much as banks accelerated efforts to increase digitisation during the pandemic, treasuries also recognise the value from eliminating manual processes and increasing automation, she says.

The way digital technologies are developed has raised some concerns for Tirreno Power’s de Crescenzo. “Machine learning will be very useful, but I sometimes fear that fintech companies and banks might produce a black box product,” he says. “In corporate treasury, we need to know the algos that are included and how the system works. I feel that this control might slide out of our hands when it comes to machine learning-based forecasting solutions.”

Raising a treasury department's 'digital acumen' is cited as a key priority for treasuries by the PwC 2021 Global Treasury Survey. Compared with 2019, the survey found that CFOs and treasurers were more focused on technology improvements and digital innovation. The primary investment targets of gaining efficiency and generating more impactful insights "point toward organisations laying a foundation to support an ultimate vision of enabling treasury on demand services", says the report.

Half of the respondents said they were working towards the vision of a connected ecosystem that leverages advanced capabilities and analytics to empower CFOs and treasurers to make financial decisions in real time. "The pandemic underscored the need for real-time treasury data and insights as teams responded to intense cash and liquidity challenges while working remotely," the report says.

APIs, software tools that connect systems and share data, and support real-time connectivity between corporates and banks, are becoming a priority for corporate treasuries, says the survey. It found that 90% of respondents expect APIs to be relevant in their function over the next two to three years.

Delta Capita's Levens says the utilisation of API technologies to provide better integration and connectivity between systems and with clients and counterparts is one of the digital technology strategies for corporate treasuries. Other areas of focus include:

- Digitalisation of central bank money, coupled with new digital settlement technologies. This will hopefully provide the foundations for real-time access and on demand management of liquidity, payments and risk management.
- The long-term future of digital assets – which range from digital coins to asset tokenisation. Treasury departments and many other market actors are looking at new digital currencies and distributed ledger technology (DLT) as potential future replacements for traditional clearing.
- Data analytics using AI and machine learning to gain forward-looking insight rather than looking back just at past data. For instance, cash flow forecasting is one of the most essential functions of treasury and machine learning solutions will help build models, based on historical data and predict future cash flow, enabling treasuries to make better decisions about resource allocation and to manage risks.
- Messaging standards such as the adoption of ISO 20022 across the financial community has a potential to improve payment reconciliations, which can help remove some of the manual processes from treasury.
- Robotic process automation to address some of the well-established and mundane operational tasks.

Andy Schmidt, Vice-President and Global Industry Lead, Banking at consultancy CGI, says APIs, which can be used to share information and execute transactions will get treasurers to "where they need to be", delivering a "single pane of glass" of information and the ability to do something about it. "For example, if there is a cash shortfall in one part of the company, a treasury can use open banking and virtual account management to drag and drop funds over to where they are needed," he says. "This is ideal for intercompany borrowing, which is cheaper than going to a bank."

At present, corporate treasuries are a mix of "screens, spreadsheets and timing difficulties", he adds. "It can take hours, if not days for a large corporate treasury to pull together an answer to the question 'how much money do we have today?' There is a mix of currencies, some systems are real-time, others are end of day. It is a real mishmash."

A core digital aspiration is to tackle this by leveraging APIs and the solutions of fintechs to access the information and make it available in as few screens as possible, says Schmidt.

"The good news is that everyone is moving towards a common end state or next state, which is a more considered understanding of the use of APIs and more universal access to real-time systems," he says. "It is the differences in timings of systems that is the hard part to address. Open banking and virtual account management will be central to solving this."

ACT's Aggarwal agrees timing presents difficulties for treasurers. "APIs can provide a chunk of real-time visibility but processing may only provide batch updates. If part of the information is in real time but some in batch a treasurer will not get a proper picture of what is going on. To do so requires business transformation, not just in the treasury, but across the business as a whole."

Other digital aspirations of note, according to Schmidt, include the integration of accounts payable and receivable – a "great idea" that hasn't caught on yet, he notes. Integration will enable greater visibility of incomings and outgoings.

Real-time access to information is also a priority aspiration for bank treasuries, says Nadeem Shamim, Global Head of Cash and Liquidity Management at fintech SmartStream Technologies. "A key aspiration right now for bank treasuries is real-time reporting and meeting regulators' demands for them to be focused on more actively managing their real-time liquidity," he says. As with corporate treasuries, the COVID-19 pandemic focused minds on the urgency of real-time liquidity management.

Previously, it was considered a costly exercise to implement real-time liquidity management but changing dynamics such as higher interest rates and the advent of faster payments is increasing interest among bank treasurers in real-time connectivity with internal and external

systems. "Bank treasuries are looking to see if APIs can help them to address these issues," says Shamim. "The reality is that banks have antiquated systems and they need to get to the data. Bank treasuries are looking to real-time clearing systems to release APIs for connectivity."

One of the key challenges for treasuries to accelerate digital transformation is "fixing up the fundamentals, which remain a core focus", says Delta Capita's Levens. "From a recent event we held with a number of senior banking executives, they all agreed there needs to be a lot of progress on regulation, standards, and interoperability of digital assets; DLT; and central bank digitisation and tokenisation are to change the game. All agreed on the need for better regulation in areas such as processing times, amount of information carried, and interoperability. This would lead to better standards, or at least some minimum agreed standards."

For Ferguson's Da Costa, addressing treasury pain points is how a treasurer can build a business case for digital aspirations. "From a treasury view we are careful to look at technologies to implement that can add value, we are not trying to find solutions for problems that don't exist," he says.

Despite the increasing range of digital technologies on offer, Da Costa says the fundamentals of treasury – cash, liquidity and risk management – will not change. "These will still need to happen, but the processes we use to do them will have evolved along with the technology."