EMERGING TRENDS IN TREASURY MANAGEMENT

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The role of the treasury has evolved from being a centralised liquidity management function, to that of a comprehensive payment, supply chain, liquidity and forex management function, while becoming innovative in order to develop an independent identity for itself.

When we say treasury, we are not only talking about corporate treasury, but also about the treasury and capital market functions of financial institutions.

While the treasury function of a bank has its primary focus on managing the surplus and shortfall of its liquidity needs, managing short- and long-term borrowing strategy, driving appropriate investments to maximise returns and managing the foreign exchange exposure of the institution, the role of corporate treasury is more tuned to managing the working capital, repatriation of cash, managing foreign exchange volatility and keeping the cost of capital under control.

The advent of some of the new-age practices and their adoption have made a big difference to trends in treasury management, both for corporate treasury, and for treasury functions at banks and financial institutions. Let’s explore them in a little more detail.

1. Integral workflows

The integration in the treasury workflow of the bank with that of corporate procure-to-pay and the order-to-cash cycle is driving significant synergies in the transaction banking arena. Be it with liquidity forecasting, payments, settlements or with pure reconciliation, the savings driven through integration are significant. This ability to have an online connectivity of banks with corporate treasuries has also created the need for a more agile and effective use of working capital, with a better outlook of the risk.

The connectivity, in essence, is three-fold. Firstly, with banks and their communication modes, including SWIFT, multi-bank reporting and payment confirmations; secondly with market data, including Thomson Reuters, Bloomberg; and the third and critical part of the connectivity is with function-specific applications for trade confirmations, investment portals and reporting systems.

The key implication is that unless banks continue to drive the integration with the corporate treasury and have a strong transaction banking offering, their ability to be a comprehensive solution provider to its clientele is likely to be seriously impaired.

The downside risk of such an integral workflow is that of cyber risk and exposure of financial data, which needs to be proactively managed.
2. Payment-hub factories

The services of payment-hub, enabling better cash forecasting, standardised approach and transaction processing is emerging as a key factor in the corporate treasury landscape, particularly in the last decade. Essentially, the payment-hub bank enables a centralised and standardised payment process across the corporate, for all bulk commercial and treasury payments, local, cross-border and inter-company transfers, while also providing value-added services of reconciliation and netting. This has also resulted in a key shift in the focus of the adjacent technology category – the payment system suppliers, with a large number of new players emerging in this area. Some of the recent industry consolidations (eg Misys with D+H) are significant in this context, given the industry leadership of Fundtech, a D&H unit in the area of cash management and payment services.

An aligned phenomenon that is increasingly adopted by large corporates is that of in-house banks, where an internal unit helps administer inter-company liabilities, and provides bank-style services to the affiliated entities. The model approaches just an external bank account to business, providing inter-company settlements, cash pooling, hedging settlements, etc. The key consideration of this approach is to reduce the number of bank accounts, and the external transaction costs.

3. Greater proliferation of cloud

While the larger tier-1 banks are comfortable with the specialised niche players, and the tier-2 banks would still be fine with treasury modules of universal banking solution providers, the large number of tier-3 and 4 banks continue to evaluate options that are specific, easy to adapt and cost-effective. Cloud-based offerings and Software-as-a-Service (SaaS) models, therefore, are seen to have their share of charm with smaller banks, and are expected to continue to do so.

Essentially, there are three parts to treasury technology that banks are looking to be delivered:

- Liquidity management: Funding, risk, balance sheet management and hedging
- Investment management: Portfolio, collateral, investment instruments and optimisation
- Capital markets: Trading, risk, transaction processing and accounting

While there are front-, mid- and back-office features that related to the dealing, risk management and the settlement operations for every deal cycle, multiple aspects of the above value chain are being addressed using the SaaS model, allowing the transaction fee to be structured on a pay-as-you-use model. The situation is identical even from a corporate treasury standpoint, where small and medium-sized enterprises would rather have a plug-and-play model that co-exists with their ERP applications.

4. Technology marketplace consolidation

Over the years, there have been multiple acquisitions on the Treasury and Capital Markets space, reflecting the nature of this industry. Multiple well-known treasury technology suppliers such as Sophis, FRS Global, Sungard have, over the last few years, been merged or acquired with other larger industry players, and the implication is not very hard to decipher: Banks are more comfortable with stability and larger, specialised players, which is either reflected by industry players who are uni-focused and deep
in this space (eg Murex, Calypso, Wallstreet), or players who have
a strong treasury offering as an integral part of a larger suite of
offerings (eg Misys, Temenos).

A more unmistakable trend in this context is the significance
of risk, compliance and governance and their implications to
technology and analytics. The universal banking players stand to
gain more in this context, and space for best-of-breed treasury
players likely to be increasingly squeezed out.

From a corporate treasury standpoint, while the core treasury
functionalities of cash and liquidity management, interest
and FX risk management, forecasting and reporting functions
are provided by the treasury suppliers (eg Kyriba, Reval), the
integration with other specialised applications and portals for
transactions, dealing systems, hedge accounting, GL applications
and BI systems form a critical part of the functional architecture.
There are also other investment portals, market information
systems, risk management applications and reconciliation
systems that are used in the corporate treasury context.
Consolidation of players resulting in a more comprehensive
end-to-end offering, is therefore inevitable.

The integration of banking treasury with that of corporate
ERP offerings also provides an edge to the large ERP players
who also have a core banking offering, with an interesting
market advantage (eg SAP, Oracle). The use of ERP for treasury
management in a corporate context also comes with its own
advantages: better data integration and leverage of existing
data, ability to integrate across locations and reduction of
operational risk.

5. Treasury operations

Although smaller in size, the front- and middle- office functions
that manage the dealing room and the risk management continue
to play the central role of a treasury function, both in banks and
large corporates. It is natural that the back-office functions of
treasury have seen a higher share of outsourcing, considering the
fungible nature of the responsibilities, the time-zone leverage that
offshore locations offer, cost reduction driven through the
shared services model and a higher consistency of global
standards, especially in treasury accounting and compliance
norms. With the advent of Robotic Process Automation (RPA)
and cloud technologies, the operations digitisation as a theme
is inevitable.

However, what may be interesting to note is that MNC corporate
treasury functions may be more comfortable in building internal
centres of excellence, especially where the operations spill across
multiple countries and consistency becomes key. The benefits
of these are quite obvious: Scalable and cost-effective operating
model, centralised liquidity management function, single point
of relationship with banks, leverage of subject matter expertise,
standardised operating model – resulting in higher throughout,
lower pilferage and improved effectiveness.

Regulatory standards, compliance norms and emerging
governance principles have all always necessitated both banks
and corporate treasurers to review their treasury systems and
reporting framework to stay compliant. Be it the IFRS9 norms or
BASEL III or the Dodd-Frank regulations, these have made the
higher degree of reporting rigour a significant impact area for the
treasurer – either with the bank or in the corporate.

While the historical approach had always been a ‘wait-and-
watch’ model, until there is clarity on the regulations and their
implications, a more recent trend has been stakeholders adopting
an early compliance, based on expectations. This is also partly
because the number of supervisors to whom reporting is to be
made has increased significantly, and the cost of non-compliance
is increasingly prohibitive.

The outlook of the treasury function, be it within the corporate
or at a bank, has seen a fair degree of shift over the last few
years, and is also likely to go through a much higher degree of
innovation and consolidation, both from the technology and
operational perspectives. Keeping with the times and being
aligned may just be the mantra for survival, if you are an active
participant in the world of emerging treasury!

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