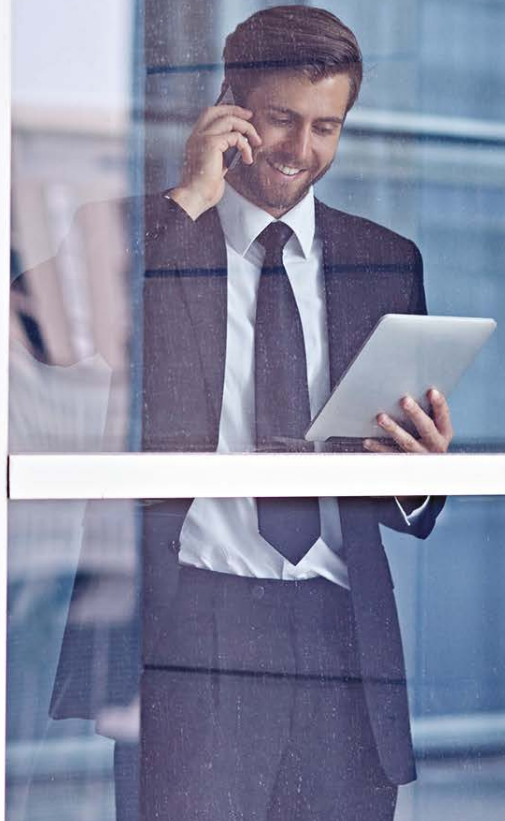




WHITE PAPER

TRANSFORM YOUR TREASURY

**TREASURY TECHNOLOGY – SIX-STEP
GUIDE TO GAINING SOPHISTICATION
THROUGH SIMPLIFICATION**

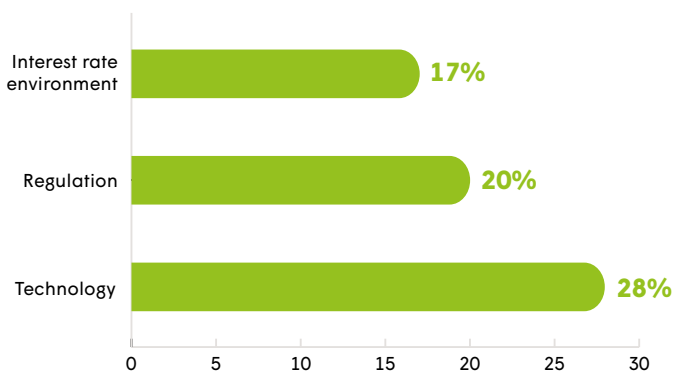


Introduction

The fundamentals of effective treasury management are relatively straightforward: visibility over cash flows, balances and exposures, and strong, systematic controls within key functions and processes. Achieving these objectives, however, can be a resource-intensive, costly and complex endeavor, particularly within organizations which maintain a large number of banking relationships and decentralized business units.

Treasurers worldwide are looking to use treasury technology to simplify treasury functions. Implemented in the right way and with the right partner, today's treasury technology offers unprecedented opportunity to achieve simplicity, operational efficiency and control. A lack of technology or partially implemented technology, on the other hand, can have the opposite effect of creating unnecessary complexity and loss of control. According to surveys that FIS™ conducted at industry conferences in the second half of 2015 (Figure 1), technology was the single most significant issue that kept treasurers up at night (28 percent), significantly more than the next two concerns, regulation (20 percent) and the interest rate environment (17 percent).

Fig 1. What keeps treasurers up at night?



This white paper outlines six steps treasurers can follow to simplify and standardize operations, to improve efficiency and achieve scalability across core treasury functions.

Step one – Streamlined bank connectivity

Complete, accurate and timely information is at the heart of effective decision-making within every treasury department. While some of this information is generated and managed directly within the treasury management system, most of the data comes from banking partners (such as account information) and from other internal systems (such as enterprise resource planning (ERP) or payment systems). Consequently, integrating with these systems and connecting to banks efficiently and securely is critical to achieving visibility and control over cash and exposures.

A variety of options for bank connectivity have developed in recent years, including Web-based electronic banking systems, host-to-host connectivity and SWIFT corporate access, as well as country-specific connectivity protocols, such as EBICS in France and Germany. On one hand, having different tools available means that corporations can select the solution(s) that are best suited to their business. On the other, connectivity becomes far more complicated for international corporations that have a large number of banking relationships globally, each of which typically has its own systems, formats and security protocols. SWIFT is widely considered to be the best way to overcome this challenge, offering a single channel through which to communicate with multiple banks.

However, SWIFT is not the right solution for every customer. For smaller treasuries with purely domestic operations, the cost is often too high and the implementation too complex. Furthermore, not every bank is connected to the SWIFT network, particularly in developing countries, which is an obstacle for treasury centers seeking to standardize global bank connectivity.

Navigating the sheer number of bank communication options available and the varied effort required to setup, maintain and integrate data with internal treasury and payments systems (ERP, HR, etc.) is a challenge for treasurers. As bank communication options multiply, so do the myriad considerations a corporation must weigh. To overcome this complexity, treasurers are increasingly looking to outsource most or all components of their bank connectivity in order to reduce costs and minimize the amount of internal resources required for setup and for ongoing management. Technology providers have experienced significant growth in managed service relationships of this sort in the past five years.

Building a global, standardized bank connectivity model is essential to simplifying treasury and managing information and transactions more effectively. By doing so, treasurers and finance managers can build a comprehensive view of their cash and risk and optimize liquidity. In addition, by gaining visibility over balances and exposures at a group level, treasurers can manage counterparty risk more effectively.

Step two – Centralize and standardize payments

It is not only visibility over balances and exposures that creates problems for treasurers. A lack of visibility into payments can put an institution at risk of loss resulting from errors and fraud. Payments security and fraud prevention has become a top priority for corporations globally.

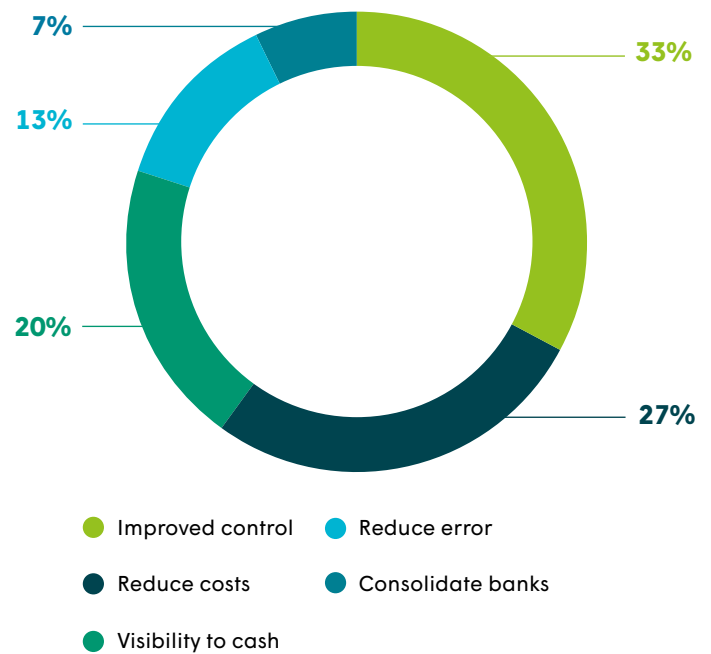
According to the FIS 2015 Payments Market Study: Putting Fraud and Fees under the Payment Factory Microscope, fraud was a key concern for treasurers. In fact, one-third of treasurers surveyed (33 percent) said that gaining improved controls would be the key driver for them to embark upon a payments and connectivity project (Figure 2). Most large companies have experienced a serious actual or potential fraud event, whether internal or external. Fragmented systems and processes make it difficult to identify process exceptions or loopholes, whereas establishing a centralized, secure connectivity infrastructure helps to standardize processes and controls while reducing opportunities for fraud.

However, FIS' 2015 payments survey reveals significant differences in the degree of centralization that companies have achieved. While a large majority of companies (84 percent) are now operating at some kind of a centralized level, only 16 percent are using a true payment factory approach. Conversely, in other instances, centralization takes the form of common reporting lines across different locations, common policies and/ or channeling payments initiated by subsidiaries through a single hub.

Group treasury has unprecedented visibility and control over company payments, and IT only has to worry about one single exit channel to the banks.

ALAIN VANDE REYDE,
GROUP TREASURER, CARMEUSE.

Fig 2. Drivers for change



By fully centralizing payments through a payment factory (whether in treasury or a financial shared service center), treasurers and finance managers can achieve complete visibility and control over policies and processes. They are also in a better position to negotiate economies of scale with cash management banks, implement payments on behalf of (POBO) models to rationalize accounts and take advantage of more efficient, cost-effective order routing.

Step three – Optimize cash visibility

While effective bank communication is essential to gaining visibility over current flows and balances, treasurers also need an accurate and complete forecast of future cash flow to manage liquidity and risk and structure funding and investment strategies.

Today, many companies still rely on spreadsheets and ERP systems to create cash flow forecasts which presents a number of challenges. In many cases, forecast information originating from different business units and regions is prone to wide variations and assumptions in the way it is constructed. Data may also be presented at different times, and in different formats, making it difficult to collate information in a consistent way.

Instead, the treasury management solution is the ideal hub in which to combine cash flow information across the organization, bringing together bank data, treasury flows, and information from across the enterprise and presenting data in a consistent and reliable way. Not only do treasurers have visibility over actual and projected flows and exposures, but they can then analyze and model potential scenarios to understand vulnerabilities from a liquidity and risk perspective and improve decision-making.

A payment factory helps to channel payments through a single bank, which enables us to rationalize our cash management structures and banking systems, standardize formats and achieve greater economies of scale.

ALAIN VANDE REYDE,
GROUP TREASURER, CARMEUSE.

The treasury management solution consolidates our data sources and information into a single customizable desktop, offering us a real-time view of our global risk and cash positions.

ANTHONY IMPALA,
MANAGER OF TREASURY SYSTEMS,
QANTAS AIRWAYS LIMITED.

Step four – Evaluate and manage risk

While cash and liquidity management are considered central “tenets” of treasury, FIS’ 2015 Treasury Risk Management Market Study emphasizes that risk management has become a major priority across organizations of all sizes. Treasurers also have a relatively low level of confidence in their ability to manage risk effectively.

Overall, (Figure 3) 54 percent of companies in the study do not believe their current risk approach is effective, emphasizing the scale of opportunity for treasurers and risk managers to add value to their business by creating a more reliable risk picture, monitoring risks more effectively and hedging more accurately.

Fig 3.



The study illustrates that treasurers in the U.S. and Asia in particular lag behind their peers in Europe in the area of FX management. Historically, European treasurers have more experience with managing multiple currencies than those in U.S., while international expansion is a more recent phenomenon for corporations in Asia.

Limitations in policy, processes and technology all contribute to a treasurers' lack of confidence in risk management. For example, a third of participants indicated that they did not have a formal risk policy, and 54 percent of treasurers noted that they use spreadsheets to identify, monitor and manage risk. These situations create major obstacles to reliable information and decision-making.

The use of specialized treasury and risk management solutions is essential to overcoming complexity in managing risk, by providing a robust and reliable platform to identify financial and credit exposures (whether FX, interest rate, liquidity, counterparty etc.), as well as the relevant control, analytics and reporting capabilities required to monitor and manage them.

There are benefits, such as improved efficiencies, controls and governance and transparency that come with implementing a specialized treasury management solution.

TOBY SHORE,

MCT, CORPORATE TREASURER
AND CHIEF RISK OFFICER, DUBAL

Step five – Navigate the regulatory landscape

Regulatory changes create complexity, uncertainty and compliance costs for treasurers. According to the industry conference surveys conducted by FIS, the second biggest group of participants, 20 percent, identified regulation as their biggest challenge in the coming year.

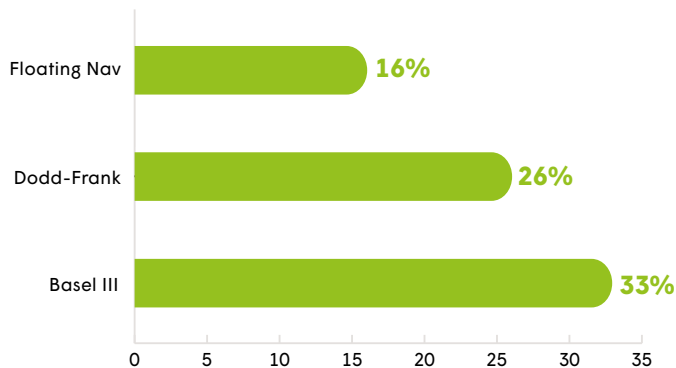
Regulatory change creates complexity, particularly as it often takes time for the implications of certain regulations to become clear. Furthermore, additional reporting and manual exceptions to previously automated processes, in order to comply with regulations, can reduce efficiency, raise costs and increase the scope of treasury responsibility, often without the benefit of additional headcount.

To overcome these challenges, it is essential for treasury departments to maintain up-to-date versions of treasury management systems and ancillary systems used for regulatory reporting in order to take advantage of new functionality. A growing number of treasurers are choosing to partner with third party consultants and technology experts to achieve regulatory compliance whilst minimizing potential disruption to their daily treasury operations.

One example of regulatory complexity and potential uncertainty is Basel III, identified by participants in FIS' industry conference surveys as the regulatory change with which they were most concerned (33 percent – Figure 4). Another example is the change in regulation of prime money market funds (MMFs) in the U.S. As funds migrate from a constant net asset value to variable NAV, treasurers will need to manage the accounting and valuation implications and, in some cases, will choose to invest in alternative instruments.

In addition to changes to money market funds (MMFs), Basel III also impacts treasury departments' short-term cash management strategies. Basel III will change banks' processes for accepting short-term, non-operating deposits, amongst other implications. Given that deposits and MMFs have been the bedrock of corporate cash investment policy, this combination of regulations has a significant impact on treasurer investment strategies.

Fig 4. Which regulatory charges are of concern?



Regulatory changes prompt treasurers to review and potentially rethink how they invest short-term cash, something challenging in an environment of extremely low interest rates. Many treasurers are turning to technology in order to simplify the changing cash management landscape; by using an independent online dealing platform that covers both MMFs (including constant and variable NAV funds) and a wide range of other cash investment products, treasurers can simplify the placement, tracking and management of short-term cash.

Looking forward, treasurers have more regulatory concerns to consider over the next few years. Basel III's impact on notional pooling products remain unknown, and alongside the "headline" regulatory changes that concern treasurers now, others have appeared on the horizon.

In Europe, for example, MiFID II, which takes effect in January 2017, will require pre- and post-trade disclosure across a wide spectrum of instruments. Global tax changes and IFRS9 in 2018, which has implications for hedge accounting and transaction valuation, will also emerge into the treasurer's domain in the coming months.

While treasurers are continuously understanding and planning for how they will comply with these regulations, technology vendors must be a step ahead in order to provide treasurers the tools they need to reduce complexity and help them navigate changes with minimal interruption to their operations.

Step six – Simplify technology consumption

Treasury technology solution, design and functionality are crucial to reducing complexity. While treasurers recognize the value that sophisticated treasury technology can offer, they may lack in-house skills or find it difficult to dedicate resources and budgets to maintaining technology solutions in line with industry best practice. Treasurers should seek not just technology solutions, but also a vendor implementation methodology and support structure which can help to achieve the goal of standardization. Does the vendor offer choices, reflecting the diversity of customers' business and IT requirements?

While some companies still choose to host software on their own premises, others select software as a service (SaaS) solutions (public cloud) or private cloud models, which help to reduce total cost of ownership. There is a great deal of focus across the treasury profession regarding the value of SaaS-based solutions, and indeed, this is an ideal model for many treasuries.

A SaaS solution provides the benefit of streamlined, simplified implementation and deployment and constant incremental upgrades. Conversely, companies with more complex requirements, or specific data security requirements, typically find that a multi-tenant SaaS environment is less suited to their operation. Those organizations, with unique security and operational requirements, find that it is easier to accommodate their specific needs and manage their operations in a dedicated private cloud environment.

Equally as important as the decision to implement software in an SaaS, private cloud-hosted or installed basis is how the vendor approaches the design, delivery and maintenance of the solution and how the vendor manages the technical environment as a whole. For example, there needs to be rigorous controls and security within every step in the development life cycle to avoid vulnerabilities – right down to the choice of browser and version number. This makes it more important than ever before to keep current on software versions.

We obtain the best available technical hardware and application support without compromising performance

ANDREW MARSHALL,
MANAGING DIRECTOR,
TREASURY ASTRAZENECA.

Maintaining the latest version of software is important but can pose a challenge, given the lack of budget and IT resources within many treasury departments. For some treasuries, using an SaaS solution enables them to stay on the latest and greatest releases with minimal effort. For others who choose a private cloud-based or installed solution, they can achieve simplicity through a managed service offering and, in particular, with a managed upgrade service.

Managed upgrade services, for example, provide companies with new and updated functionality and security in a timely and structured way, with transparent annual costs. Managed services avoid the need for customers' IT departments to maintain the application, such that the technology vendor can manage hosting, backup, maintenance and integration can, utilizing vendor expertise and substantial data facilities to manage systems in data in line with industry best practices. Again, this reduces effort and complexity for treasurers and finance managers, enabling them to focus on how they use our solutions and the information they provide, rather than the systems themselves.

We have one provider with the experience and expertise around the actual treasury solution as well as hosting solutions.

ANTHONY IMPALA,
MANAGER OF TREASURY SYSTEMS,
QANTAS AIRWAYS LIMITED.

Make it simple, keep it simple

Rationalizing and streamlining the use of technology to improve processes, controls and decision-making is an ongoing effort, requiring regular review to ensure that the routine of treasury operations incorporates emerging business, market and regulatory developments. Participants in FIS' industry conference surveys indicated the most important element of an effective treasury technology strategy is the quality of the vendor relationship.

Working with a vendor with proven technology solutions, that has security at their core, and who has the functional capability and product flexibility to respond to changing market and regulatory demand should be of utmost important to treasurers. With the right technology solutions and partnerships in place, treasurers can achieve improved controls, efficiency and scalability, all without sacrificing simplicity and standardization in operations.

Fig 5. Treasury technology

TREASURY TECHNOLOGY: 6-STEP guide to gaining sophistication through simplification

1. Streamline bank connectivity
2. Standardize payments
3. Optimize cash visibility
4. Evaluate and manage risk
5. Navigate the regulatory landscape
6. Simplify technology consumption

Fact: Participants in FIS' industry conference surveys indicated the most important element of an effective treasury technology strategy is the quality of the vendor relationship

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com



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