

# Innovate and change

**INTERVIEW** Ben Cooper speaks to Kenneth R. Dummitt about managing cash in the face of exciting technological advances

**Tell us about the movement towards the componentised delivery of SaaS based web services versus the old massive technology buys and installs.**

**Kenneth R. Dummitt:** Some corporations are deterred by the idea of installing massive software packages in-house. And some corporations may not have the IT staff to facilitate this. Coupled with these challenges is the

advancement of technology delivery and software development. As such, we are seeing a migration away from full upgrades to deliver new functionality towards componentized delivery. A good example is our SEPA (Single European Payments Area) converter. Many companies are now looking for functionality to convert files easily for SEPA compliance. Rather than requiring each of our existing treasury customers to take on a new release just to address this issue, our customers can access this functionality via our web por-

tal. SunGard has instituted a web platform called Infinity and we can now leverage this to deliver new services to existing customers and even offer these services to new customers, even those using an entirely different treasury solution. This is just one example of how we see technology evolving beyond traditional installed software. The focus of our technology development has been on componentized packages that are web based leveraging a pay as you consume model.

**Data aggregation – where do you see the need for the aggregation of more timely and accurate data?**

**Kenneth R. Dummitt:** We hear treasurers tell us in one way or another that data aggregation is one of the biggest issues they face today. There is so much data and information now available to treasurers – however, most of it comes from multiple locations and disparate platforms across the EcoSystem. We see this happening for instance with money market funds; treasurers simply do not have the time to research funds on a daily basis. By centralizing access to more than 200 funds through a single portal, our customers can now research, analyze and engage in more sophisticated short-term cash management strategies. Another great example is

around FX management. Many companies cannot properly analyze their FX risk across the entire balance sheet on a daily basis. This is because the data lives in multiple source systems. By offering technology that can aggregate this data and make it available in a digestible format, treasurers are gaining increased transparency to cash and risk.

**Where do you see the greatest opportunity for treasurers for increased connectivity?**

**Kenneth R. Dummitt:** External connectivity across the corporate commercial EcoSystem provides the greatest opportunities for treasurers in today's world. Whether it is to facilitate data aggregation or centralization, for example, the push for greater transparency and efficiency in this marketplace will provide great rewards for those treasurers that pursue these opportunities. The treasurer's EcoSystem consists of many different touch points. This could include banks, SWIFT, FX platforms, market data, and even internally

a trusted advisor to our corporate customers. The big hurdles are generally getting through the administration and connectivity components, and then the real benefits can surface. The AvantGard EcoSystem Communication Service (ECHOS) helps by leveraging a set of standard bank interfaces and embedded connectivity. SunGard maintains the interfaces, standard formats and transformation requirements for the communication, allowing corporations to connect once to ECHOS and then out to SWIFT and the broader banking community.

**Alternative funding – what sources are you considering?**

**Kenneth R. Dummitt:** The banking crisis certainly helped to fuel the concept of alternative funding options. Large corporate customers with A ratings have opted to help finance their smaller suppliers. In this reverse factoring scenario, the supplier benefits from a low cost borrowing line and the buyer benefits from both an extended DPO (Days Payable Outstanding) while helping to protect their supply chain.

**What view or role does treasury play in receivables management? How are you protecting your corporate credit risk and how can you best leverage your receivables as an asset for alternative funding?**

**Kenneth R. Dummitt:** Without an accurate view into cash flows, a treasurer will never truly have transparency to cash or risk. This is why more treasurers are now looking at things like risk across the A/R (Accounts Receivable) portfolio, and weighted forecasts using historical trending in order to have a clear view into forecasted cash from receivables and counterparty risk. Treasurers are increasingly keen to gain increased transparency to receivables. Further, we have seen increased traction in the use of receivables to generate working capital. Once an approved invoice or receivable goes out to bid, financial institutions can fund the invoices as a very attractive and lower risk investment. Not only are banks getting into the bidding, but we are also seeing hedge funds in there too; this is the type of creative and innovative developments we are seeing come out of the financial crisis.

**Data aggregation is one of the biggest challenges facing corporate treasurers today**

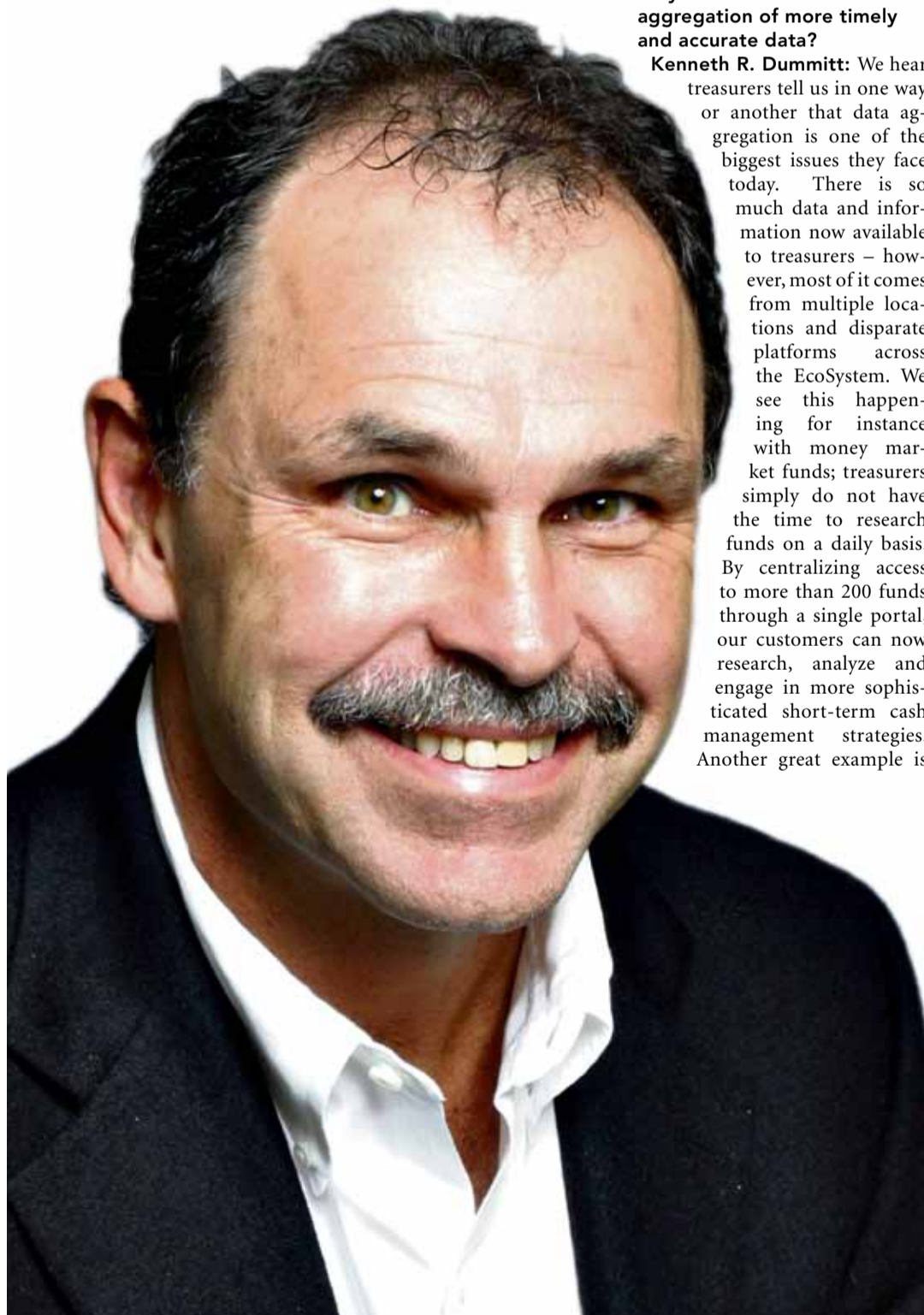
to receivables and payables. To truly gain transparency and efficiency across this EcoSystem there is an enormous requirement for increased networking. As an example, we recently conducted a market study looking at payments systems and connectivity. When we took a look at the companies in the \$5 billion-plus range, over 30 per cent were operating with 21 or more cash management banks and 40 per cent were using 11 or more payment initiation systems. This means that banks can reach further into the organization such as receivables and payments and can also offer more services faster as the connectivity and updates happen just one time within the central ecosystem. The AvantGard EcoSystem Communication Service ECHOS allows corporations to connect and banks to connect as well as other trading partners.

**As far as SWIFT Connectivity and corporate access goes – what are you doing today?**

**Kenneth R. Dummitt:** The SWIFT corporate access program has grown tremendously over the past few years, not only within Europe but globally. There is an increased acceptance especially as corporations migrate to the service bureau model. In this model, corporations can connect to SWIFT without the burden of managing the connectivity or administration. As a preferred global partner to SWIFT, we act as

**The next step – mobile treasury? What are your thoughts?**

**Kenneth R. Dummitt:** While it is too soon to tell exactly which applications will deliver the most value, SunGard has invested heavily in this technology framework. The premier global solution at this point is SunGard's private banking solution. We are building on this SaaS capability to deliver solutions across the EcoSystem.



**KENNETH R. DUMMITT** is the president of SunGard's AvantGard

# Glamour in the spotlight

**CASHBACK** The financial crisis has enhanced the role of the treasurer, reports Rod Newing

**T**he recent economic environment has highlighted the critical role that corporate treasurers play in uncertain times. They have always had a vital role in managing both short and long-term finances, but the sudden scarcity of credit has put them firmly into the corporate spotlight.

“The current cash scarcity is an opportunity for treasurers to en- gage their organisation into be- coming a more useful function,” says Andrew Meade, head of fi- nance and performance manage- ment at Accenture. “Treasury is an important function, but quite often has not been afforded the glamour it deserves. The past two years have catapulted the treasurers’ agenda back in front of the board and reminded many or- ganisations of the importance of a progressive and high-performing treasury function.”

## BACK TO BASICS

Scott Coffing, chief operating of- ficer for SunGard’s AvantGard treasury product, sees the current challenges of treasurers in terms of Maslow’s hierarchy of needs. At the lowest “physiological” and “safety” levels is liquidity, the lifeblood of an organisation. The next layer up is the larger picture of credit ratings, securing credit lines and issuing bonds, in order to grow the business and take advantage of strategic opportuni- ties. At the top “self-actualisation” layer is hedging to protect the profit and loss account.

“A treasurer’s world is a very complex place and they are all linked,” he says. “For instance, you can’t do the hedging unless you have the credit capacity for the hedging trades.”

When it comes to liquidity, treasurers have been revisiting the fundamentals. Basic “plumbing” work has involved identifying how much cash the organisation has, where it is, how accessible it is and how hard it is working, as well as

ensuring that adequate sources of short term cash are available.

Accenture recently conducted a detailed investigation of all bank accounts and deposits of a global resources company that uncovered almost \$200 million of cash they were unaware of. Mr Meade says that this is not a unique circumstance. Because of all the different geographies, currencies and banks, as well as acquisitions, global businesses can have a huge number of accounts.

“Consolidation of accounts and banking relationships was often not a priority, so there is a lot of cash that is massively under-uti- lised,” he says. “The key is to go through the mundane exercise of turning every bank account inside out across the entire portfolio to see what you have, which cash balances and deposits are working for you and which are not and to consolidate that view.”

This seems surprising, when most corporate treasurers were sure that they had already ad- dressed the basics and got them right. Sonia Rosetti, head of prod- uct management and solution de- velopment for global transaction services at Royal Bank of Scotland, explains that as the economic en- vironment started to change, treasurers realised they needed greater depth, more timely controls and more triggers than in the past.

“They now have to get the basics right again in the new operating environment,” she says. “This means cor- rectly deploying state-of-the-art treasury systems to make sure we don’t get into this situation again.”

## WORKING CAPITAL

Short-term cash management is very closely linked with working capital management. Treasurers are not generally involved with inventory management, but are being increasingly involved in receivables and payables, which were traditionally under the firm operational control of the ac- counting department. In the past, treasurers were often given only pre- dicted inflows and outflows.

“Working capital management has become a ‘C’ suite topic,” says Michael Guralnick, global head of client sales management, treasury and trade solutions in Citigroup’s global transaction services divi- sion. “When liquidity was flush in the marketplace and bank credit was plentiful, treasurers had a mul- titude of funding alternatives, and as a result working capital manage- ment was not a top agenda item for some companies. However, dur- ing the recent crisis, as credit dried up and access to liquidity became more challenging, working capital management moved up the priority ladder within all corporations, and boards started reviewing it intensely. Consequently, with this increased senior focus within corporates, it has expanded the treasurer’s role as an integral partner of the com- mercial business divisions to assess risks and opportunities within the supply chain to help them optimise working capital to free up liquidity trapped in inefficient processes.”

Adnan Ghani, head of trade fi- nance for global transaction serv- ices at Royal Bank of Scotland, says that every five days improve- ment in the working capital cycle can add as much as two percent to their margins. “Organisations can improve their return on assets by six to 15 per cent,” he says, “which is a huge difference.”

Guralnick stated that, for corpo- rates and banks, transaction services have historically focussed on pay- ments and liquidity management. “Our clients are now saying that getting control over their receivables management process is a number



**SCOTT COFFING** is chief operating officer of SunGard’s AvantGard



one priority this year,” he says. “The ability to issue the invoice, collect the cash and have the ability to apply it as a foundation for working capital management has become a priority so collections processes and end to end receivables management has become much more relevant.”

## QUALITY RELATIONSHIPS

In the past there was a tendency to combine major core banking rela- tionships with a “best-of-breed” ap- proach, where the most appropriate bank was selected for a particular territory or transaction type or be- cause of historical ties. The result was a proliferation of banks and fragmented relationships.

“During the crisis we saw cer- tain banks walk away from certain companies that had been clients for

many years,” states Guralnick. “Rela- tionships have now strengthened for banks that stayed committed to their clients during the crisis and contin- ued to partner across their diverse business platform. In particular, clients want new innovative ideas for being more efficient and effec- tive. Loyalty goes both ways, so last year Citi increased its investment in global transaction services’ innova- tion by 23 per cent in the toughest year that many of us can remember in our lifetime. These investments have primarily focussed on solu- tions that help our clients manage a myriad of risks ranging from trans- action risk, operational risk, com- mercial risk and liquidity risk.”

Meade is concerned that a few years ago people would advocate a single banking partner, which is no longer



“The way of the future is to get people to do the thinking and the machines to do the work.”

**Nigel Grey** treasury manager, De Beers



prudent from a risk management perspective. He advocates picking banks that, in their local geographies, are almost too big to fail. He also advises a sensible balance between a few quality banking partners that have stood the test of time and “best-of-breed” banks for certain transactions.

“I am flabbergasted by the sheer number of banks that large companies are dealing with,” he warns. “The more relationships you have to manage the more difficult it is to have quality relationships. A close relationship brings many benefits and it is important for a bank to understand your needs. Companies shouldn’t have a single banking partner, but many have far too many banks and as a consequence the infrastructure, service and transparency all become unwieldy.”

#### TREASURY ORGANISATION

Increased complexity, a growing role and a higher profile are very positive for the treasury organisation. However, they have come at a time when companies have been cutting costs and headcounts in all areas and treasurers are expected to contribute.

“Treasurers who have been able to articulate their funding and risk management strategies and shown how their departments have created value have been able to manage the internal pressure to generate savings,” says Yann Umbricht, head of corporate treasury at PricewaterhouseCoopers. “Technology has evolved quite significantly to create efficiencies and address the savings agenda. Part of the challenge is that they have less time to address it, but they have to do

## Quality relationships

A recent ACT survey found a trend towards increasing banking relationships. What do you think is driving this?

- The need to spread risk
- A reduction in traditional counterparties
- Best market option
- Increased business requirements



Source: The Association of Corporate Treasurers

it to generate these savings. The challenge for the year is around resourcing and time constraints.”

Accenture has seen organisations completely rethinking the type of treasury function they want. “The treasurer is often sitting in the back office juggling a multitude of spreadsheets and desperately trying to keep some level of visibility around the cash position,” says Meade, “and that is not an exciting place to be. With the right organisation a treasurer can focus on things that really add value and provide a competitive advantage to the business.”

However, Ghani points out that chief financial officers and treasurers are at the back of the queue

in getting talent and resources. Retaining talent and getting more will be a major challenge for treasurers in the coming year.

#### CHANGE AGENTS

Guralnick agrees that it has been a challenging period, but the importance of working capital optimisation, and treasurers’ close ties to the banks to leverage their innovation, has led them to becoming empowered change agents. Their organisations look to them as the conduit and the window into the banking infrastructure to bring new ideas to help them drive efficiency and operational effectiveness. This has really enhanced the role of the glo-

bal treasurer and given them a new platform of advocacy within their own companies.

“It is hard to find good treasurers and if you have got one for goodness keep them,” says Meade. “It is worth the investment – and make sure you give them the appropriate tools to go from being a ‘spreadsheet jockey’ to adding value to the company. Above all, make sure the banks and creditors are aware that they have the cash position under control, so their credit rating stays high, because if it goes down there is a big price to pay. You need confidence around your cash position and you need to communicate it.”

## Building a successful cash culture

The credit crisis spotlights corporate treasury. Boards have had to focus on funding and financial risk, particularly financial strategy. Treasury has, as a result, become widely recognised as a vital part of a company’s success, even survival. Cash is king but many other activities go into ensuring a company can access necessary financial resources and manage financial risks in the context of the overall business.

The role requires demonstrable expertise. Those responsible for treasury issues, even as part of an overall finance function, need to be properly qualified. The ACT offers a range of qualifications which can either be taken as standalone certificates or used as building blocks to the AMCT Diploma in Treasury – the benchmark of treasury competence – or the MCT Advanced Diploma for those at a strategic level.

More broadly, the ACT strives to spread appreciation of key treasury knowledge, so we are delighted to be involved with this supplement.

As a professional body, we take a keen interest in financial market structures, standards and regulations – our members depend on them to carry out their roles. Proper caution is necessary, but financial regulation should be crafted to avoid difficulties for wholesale customers

Stuart Siddall,  
Chief Executive,  
Association  
of Corporate  
Treasurers



and so for the real economy. The ACT engages with regulators to help achieve this.

We are deeply involved in the topics covered in the following articles, including alternative funding to traditional bank lending, which many smaller companies struggle to secure. This is likely to require greater competition for and between banks. Competition may bring banks a bit more risk not less. But if banks are over regulated what hope is there for competition or innovation? Banks will not improve if they always have a safety blanket – so perversely there may need to be more risk in the systems – banks or parts therefore must be able to fail. Regulators need to make progress in establishing a new normal, not a return to old habits.

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# Money courage

**TEAM EFFORT** Holistic risk management should involve treasury in an enterprise-wide effort, reports **Graham Buck**

**M**odern society is increasingly risk-averse – the lead coming from government which sometimes appears bent on regulating risk out of existence.

Yet as Stuart Siddall, chief executive of the Association of Corporate Treasurers (ACT) remarks, risk should be regarded as basically healthy and this extends to managing financial risk. The key is in recognising those risks that can be managed and, where management is not possible, to take positive action either to avoid that risk or mitigate it.

“Recent events have taught us that unexpected – and often nasty – things happen; therefore the pessimists among us have the opportunity to press business to plan for the unexpected,” he stresses.

“That should mean that the chief executive, or the company optimist, who wants to adopt a ‘wait and see’ approach because we don’t know if x or y will happen, should cut less ice than before. However, making these individuals face up to and plan for risk needs determination and balance – analysis is key.

“You will get more support than before – if for no other reason than the non-executive directors will be concerned that they will want to play it safe.”

One evident trend, adds Siddall, is that the cost of mitigating financial

risk has grown more expensive, with increased spreads, greater concerns over credit risk and the availability of facilities among the contributory factors. This means companies must be equipped to recognise when risk becomes too costly to manage and the company needs to change its business model before risk issues become too big and expensive to handle.

## MULTIPLE RISKS

The treasurer and his or her organisation face risk at many levels. Naveed Sultan, head of global transactions services (GTS) for Europe, Middle East and Africa (EMEA) at Citi, cites some of the main examples: Liquidity Risks, or access to keep the business funded day-to-day; Counterparty Risk and counterparty exposures; Market Risk, such as fluctuating currency values; and Operational Risk such as breaks and leakages.

“Without a total view of potential risks and exposures – what and where they are – as well as a clear process for tracking and mitigation, the treasurer would not be in possession of the ‘full picture’ which could limit the effectiveness of their approach,” he says.

“That said, the risk framework for an organisation has to be appropriate to its business requirements, and it would be wrong to assume that one size fits all.”

Risk also extends to investment policy, adds James Lockyer, the ACT’s director of education, as from the academic viewpoint companies

exist in order to generate additional returns over a risk-free investment.

“There’s no point in having a company if investors could get exactly the same return by investing in government debt,” he stresses. “And you only get additional returns by taking on more risk.

“The company’s responsibility is to generate additional returns – by taking on more risk – that are consistent with the risk-weighted returns required by investors. So risk is fundamental to business and investment.”

The terms “enterprise risk management” and a “holistic view” of risk have been used increasingly in recent years as an essential means of viewing and assessing each in this range of risk exposures.

For the treasurer, the term can apply to reviewing all potential types of treasury risk, or looking across the entire organisation at all levels and involving all departments in risk assessment, suggests David Luijterink, associate partner, KPMG forensic (UK).

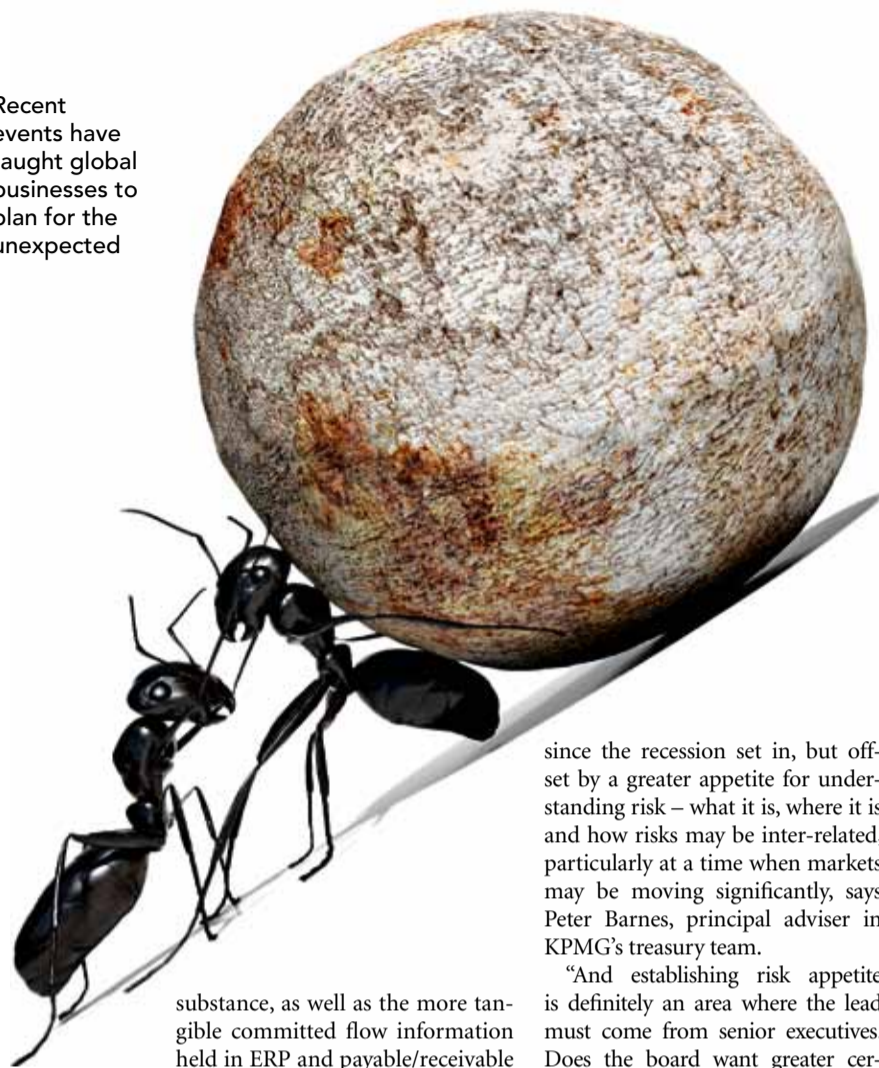
“The question of whether there is segregation of activities needs to be asked,” he suggests. “For example, does the treasurer get involved with operational activities in addition to being responsible for oversight?”

## TREASURE INFORMATION

Sultan adds that the treasury team should also be working alongside colleagues in operations, finance and procurement and sourcing in devising a comprehensive risk strategy. It’s a view shared by Kevin Grant, chief executive of IT2 Treasury Systems. “In most companies, financial risk is distributed around the enterprise – and treasury need visibility of all of the consolidated exposures to make informed analyses and decisions,” he observes.

“This means treasury needs up to date cash forecast information from all the company’s operating units of

Recent events have taught global businesses to plan for the unexpected



substance, as well as the more tangible committed flow information held in ERP and payable/receivable systems. This requires a high level of systems integration, and use of the web for 24/7 communication across the whole enterprise.”

## THE BIG PICTURE

What are the main benefits of using this information for a holistic view of risk and applying varying risk mitigation strategies? According to Grant, they enable the treasurer to view enterprise-wide financial risk.

“Arguably, the information should be updated in real time, so

since the recession set in, but offset by a greater appetite for understanding risk – what it is, where it is and how risks may be inter-related, particularly at a time when markets may be moving significantly, says Peter Barnes, principal adviser in KPMG’s treasury team.

“And establishing risk appetite is definitely an area where the lead must come from senior executives. Does the board want greater certainty around the income statement, is it seeking protection against disaster scenarios, or is it hoping to gain competitive advantage over its rivals? “Companies in the retail or holiday sector will want to fix costs and therefore have similar policies. Any significant difference in policy could create a competitive advantage, or indeed disadvantage.”

## DEVISING STRATEGY

Karen Boxall, head of corporate risk management sales for BBVA, suggests that a holistic approach to addressing total risk can be looked at a couple of ways.

“One example is the assumption that the economic cycle coordinates with the level of floating interest rates and thus when business/the economy is below potential interest rates debt is cheaper,” she observes.

“This basis would indicate no hedging at all – apart from fixed rate bonds swapped to floating – so business is left to the vagaries of the market and market shocks, whether or not this coordinates with the underlying business.”

Finally, who can treasurers look to for guidance in devising their risk strategies? As Grant comments, “the banks haven’t showered themselves with glory” in their approach.

“Probably the most useful source of best practice risk management ideas and strategies comes from the corporate treasurer’s peer, and from the ACT and its European counterpart the EACT,” he suggests.

“Those of our clients who use sensitive risk indicators, and who looked proactively at their forecast business projections, were able to navigate the financial crisis in relative comfort, through anticipating and managing their financing and investment needs.”

## Managing risk in a dynamic environment

**In periods of volatility**, Money Market Funds (MMFs) have appeal as low-risk investments; hence recent demand from local authorities, which moved into them after burning their fingers with Icelandic banks.

Gail Le Coz, the Institutional Money Market Funds Association (IMMFA)’s chief executive notes that MMFs allow investors to diversify risk when compared against investment in a single instrument or with one entity. A triple-A rated MMF must also follow investment criteria specifically designed to help manage risks.

This appeal has been marred since the onset of the crisis by European funds running into trouble – and the government rescue of major US fund, Reserve Primary, in September 2008. However, the culprits were not top-rated funds, but “enhanced” MMFs in France and non-stable value funds in Germany. The IMMFA nonetheless responded by revising its code in January to better protect investors improved standards for maturity, credit quality, liquidity and disclosure.

Le Coz stresses that the triple-A rated MMF industry remains robust, with assets in IMMFA money market funds up 7 per cent overall since the start of 2009, while euro fund assets are up 30 per cent and sterling fund assets up 5 per cent.

“This increase is a reflection of the continued interest in the product from investors,” she adds.

Their pooled nature enables triple-A rated MMFs to invest in assets with a mix of different durations up to a maximum term of 397 days providing the weighted average maturity of their overall investment portfolio is no more than 60 days, says Justin Meadows, chief executive of ICAP’s My Treasury.

“Obviously longer term investments attract a higher interest rate and the mixed durations have allowed MMFs to offer same day money at yields that could not be achieved simply through short term deposits, the only other serious contender for this kind of money as far as many treasurers are concerned.”

“In the environment prevailing since Lehman’s, no treasurer has been focused on yield, and security has been the overwhelming factor in their investment decision making,” he reports. But since the start of the year, confidence has started to return to the market and some attention is once more being paid to yields. These have declined to close to zero in the prevailing low interest rate environment so investors have begun to look at how they can begin to realise higher yields without any unacceptable compromise in security or liquidity.”

One company continued to hedge in deutschmarks years after the introduction of the euro

that risk mitigation decisions can be taken swiftly and effectively, using accurate information,” he suggests. “Corporate treasuries are evolving their mitigation strategies, especially in the light of a heightened awareness of counterparty risk in the wake of the financial crisis.”

The need to have a complete and up-to-the-minute data set is echoed by Scott Coffing, chief operating officer for SunGard’s division Avant-Guard. “If you’re hedging without having all of the data there’s a significant chance that you increase the risk rather than decrease it,” he warns. “There was even one extreme case of a company continuing to hedge in deutschmarks several years after the introduction of the euro.”

Risk mitigation strategies will, of course, be determined by the organisation’s appetite for risk. “There is definitely a lesser appetite for risk