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## HIGHLIGHTS OF THE TREASURERS' BENCHMARK REPORT

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## Highlights of the Treasurers' Benchmark™ Report

**How effective is your treasury operation? What are your strengths and what areas should you prioritize? While there is rarely a “right answer” in treasury, how have other companies approached the challenges which you are experiencing? This is where the Treasurers' Benchmark can help.** The Treasurers' Benchmark allows you to benchmark your treasury and finance activities comprehensively but without investing the amount of time or money that a lengthy consultancy assignment can demand. **All information is held confidentially** so no other participant will be able to identify aspects of your business.

The Treasurers' Benchmark gives you an insight into different methods and approaches, adding depth to your decision-making and allowing you to prioritize business activities. A number of companies have already indicated that participation in the Benchmark has acted as a catalyst for change, such as implementing SWIFTNet connectivity, embarking on a cashflow forecasting project, conducting a bank review and initiating a payments factory project.

Participation in the Treasurers' Benchmark does not take a lot of your time, and involves going through a detailed Questionnaire, usually over the telephone in one or two sessions. We will then send you a Benchmark Report, often over 75 pages in length, written specifically for your company. This is difficult to replicate in these Highlights but as an example, figure 2.3 in this Report shows how your data would be presented against the Benchmark, which is then accompanied by analysis on the reasons for any deviation from the Benchmark and how companies have approached areas in which you have experienced difficulties.

In addition to the Benchmark Report, participants have exclusive access to the Treasurers' Benchmark website. This provides an on-line discussion forum, best practice case studies, many of which are unique to the Treasurers' Benchmark website, plus focus topics and on-line training.

We would be delighted to discuss the value you can gain from participating in the Treasurers' Benchmark in more detail and look forward to working with you!



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### How can you use the Treasurers' Benchmark Report?

Identify competitive strengths and distinguishing features of your treasury and finance function using independent criteria;

Recognizing areas where you may be focusing less time or attention in comparison to peer organizations helps to prioritize change and investment;

Benchmarking treasury operations against comparable companies, as well as larger and smaller companies helps you to position your treasury for change as the business expands or rationalizes its operations;

As the Report provides a comprehensive and impartial view of your treasury, you may wish to use it as a basis for a request for proposal (RFP).

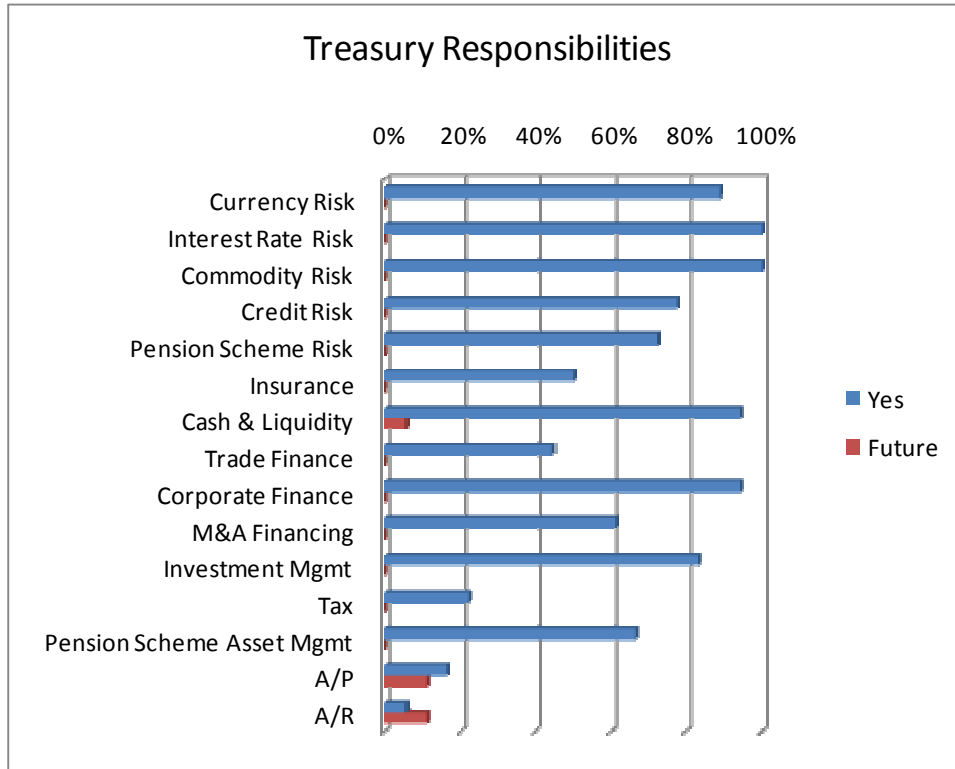
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# 1. Role of Treasury

## 1.1 Treasury Responsibilities

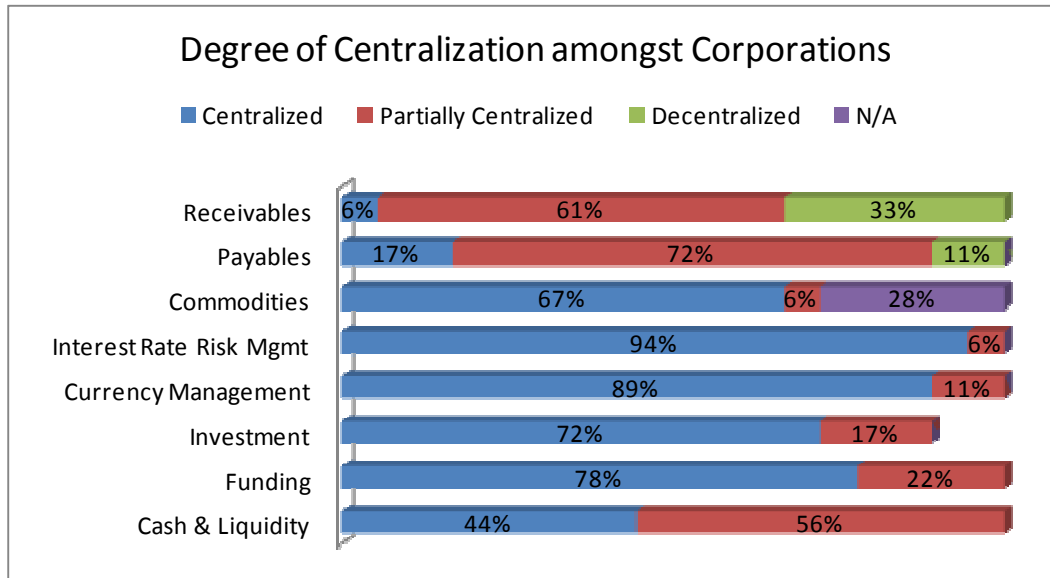


**Fig 1.1**

Treasuries of participating companies have a wide range of responsibilities including the traditional areas of debt, investment, FX and cash management, but also areas which typically receive less focus, most notably Tax and Insurance Risk, with 22% and 50% of participants respectively indicating that they had responsibility for these areas.

Although the percentages are still relatively small compared with more traditional areas such as cash and risk, Payables and Receivables management were the greatest areas of growth in treasury. 28% of participants had either taken responsibility for Payables management or had specific plans to develop their operations in this area over the next 12 months; in the area of Receivables, 17% had either taken responsibility or had specific plans to do so. Other companies also anticipated that they would have greater involvement in these areas, in addition to Trade Finance, but specific plans (i.e. over the next 12 months) were not yet in place.

## 1.2 Degree of Centralization



**Fig 1.2**

Although many functions are largely centralized, and there have been great strides made in areas such as in-house banking, few companies have been able to centralize their financial operations entirely. The relatively high level of decentralization in payables and receivables management seems likely to reduce over the coming years now that the technology is well-established, banking connectivity is becoming more straightforward and more companies seek competitive differentiation by optimizing working capital, improving forecasting and increasing the automation and transparency in these areas which have historically been more operational than strategic in nature. As the full Report describes in detail, Treasury is expanding its role in centralising these functions.

Within the traditional functions of Treasury, cash management was identified by participants as being the area most difficult to centralize. The full Report explores this in more detail and the members' section of the website provides case studies of companies which have achieved the most considerable successes in centralization and/or achieving efficiencies in the regions considered most problematic.

## 2.0 Cash Management & Banking

### 2.1 Bank Reviews

There appear to be two key approaches amongst treasurers when it comes to reviewing their cash management banks: firstly, those who review their banks on a regular basis (every 1, 2 or 3 years –56%) and secondly, those who only do so when there is a particular reason, such as a change in the business, or the level of dissatisfaction with an existing bank reaches a critical level (44%).

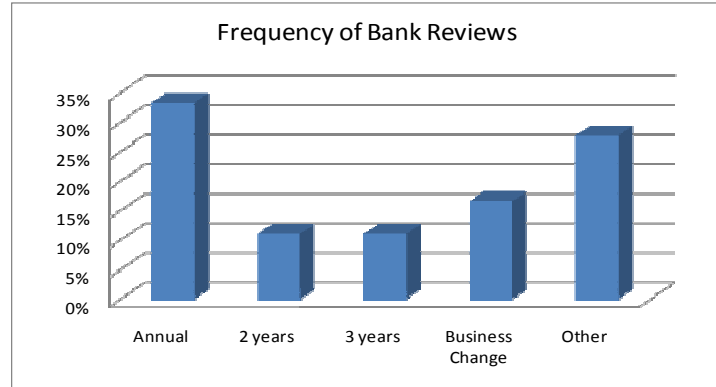


Fig 2.1.1

It is surprising that nearly half of treasurers do not routinely review their cash management banks, bearing in mind how significant the relationship between treasury and their banks. Treasury is highly dependent on the cash management products and services provided by the banks for centralization and transparency of cashflow, and fees paid by treasury for these services can be considerable.

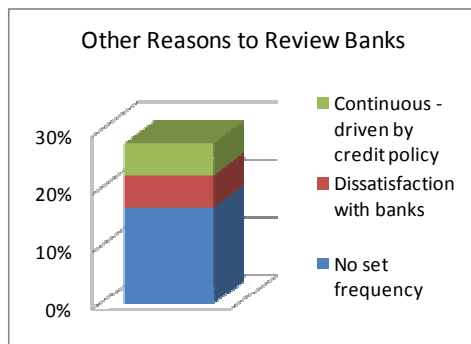


Fig 2.1.2

Bearing in mind that 56% of participants have achieved only partial centralization of their cash and are seeking this to a greater degree, one might expect companies to be seeking new approaches and solutions from their own bank, or alternative banks, more proactively. The initial suggestion from our research, however, is that around 50% fewer corporations who review their banks regularly have achieved a high degree of cash centralization than those who do not do so. This indicates that more regular reviews of a company's banks may act as a catalyst for improving cash management techniques and therefore achieving a higher degree of centralization.

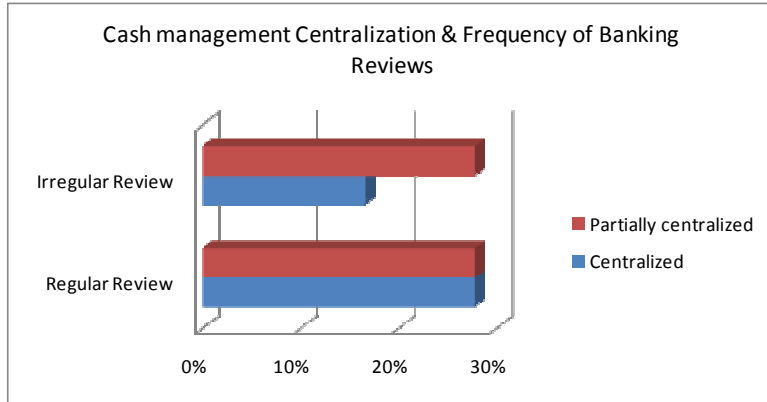


Fig 2.1.3

## 2.2 Number of Cash Management Banks

Around 50% of participants in the Treasurers' Benchmark work with over 10 cash management banks. This is not always out of absolute necessity, as participants cited credit relationships and historic/political reasons for maintaining some of their banking relationships.



Fig 2.2.1

Although corporate treasuries do not always review their banks regularly, there is an expectation amongst treasurers that they will reduce their cash management banks over time, so long as it is expedient to do so (figs 2.2.2 and fig 2.2.3). While bank connectivity is a major issue for corporations, emphasised in the section on SWIFT later in this Report, it is no longer the major driver for companies to reduce their number of banks; today, with better opportunities for standardized formats and single channels for bank connectivity such as SWIFT, there is less reason to reduce the number of banking relationships purely from the perspective of connectivity, but rather to select the most appropriate bank based on the service and solutions which they provide in the countries in which a company does business. In some cases, this will mean a reduction in the number of cash management banks to achieve economies of scale, such as in the single Euro payments area (SEPA) but quality of service and solutions

and the degree to which these are appropriate to the markets in which companies operate are likely to become the predominant factors in determining the choice of banking relationship.

Consequently, while we would expect to see corporations rationalizing their cash management banks over the next few years, we do not envisage a dramatic reduction. 27% of treasurers who indicated that they aimed to rationalise their banking relationships have a project currently underway to do so and one participant had recently completed a similar project. While these companies sought a reduction in their number of banks, they did not anticipate implementing a single global bank.

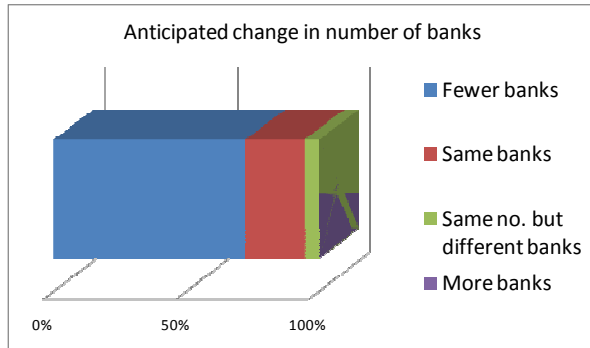


Fig 2.2.2

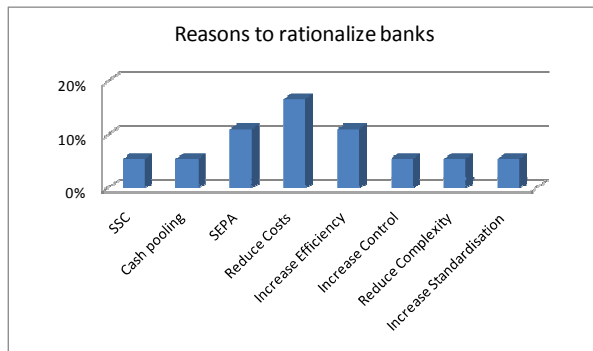


Fig 2.2.3

## 2.3 Cashflow Forecasting

Although 89% of participants expressed that they either performed, or intended to perform cashflow forecasting, this was not necessarily reflected in practise. For example, only 67% of participating companies indicated that they constructed a 1 week forecast, with slightly lower percentages in periods up to 1 year. Very few companies extended their forecasts beyond 1 year. In reality, around a third of companies which indicated that they undertook cashflow forecasting had not managed to do so and even then, there is substantial variation in the accuracy of forecasting:

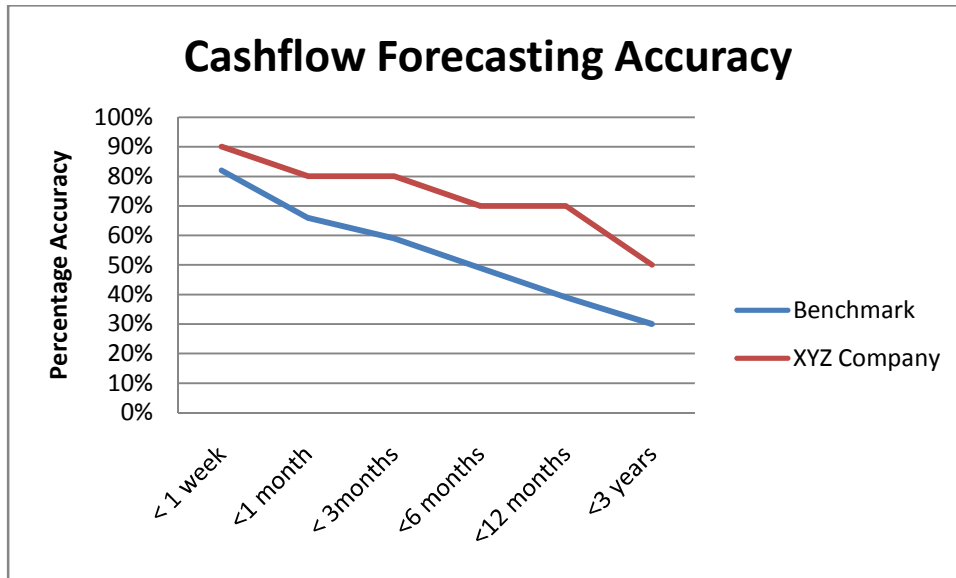


Fig 2.3.1

While it is inevitable that many companies without long term recurring revenue streams will find it difficult to project cashflow in the longer term, it is evident that the majority of treasuries (72%) wish to provide more accurate analysis over a longer period to facilitate decision-making. Some of the issues which currently prevented this included the following:

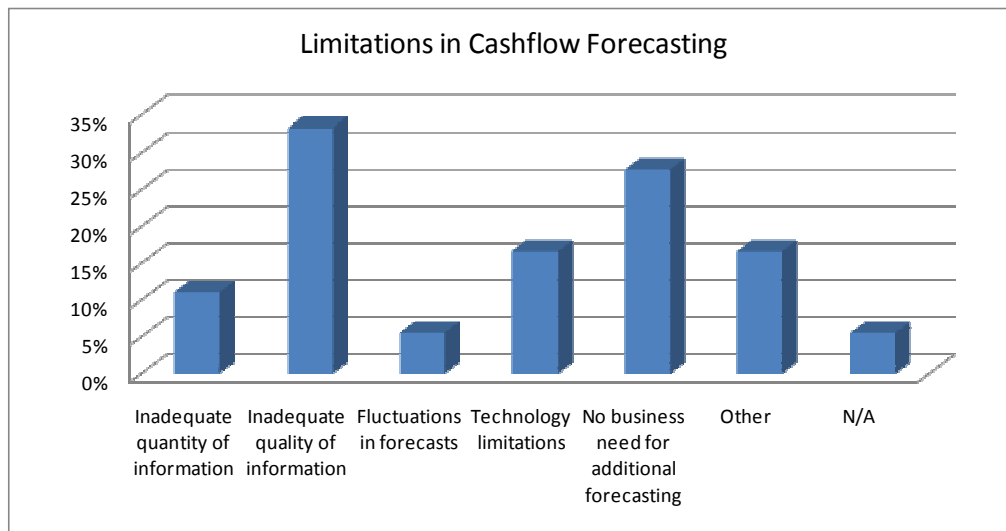


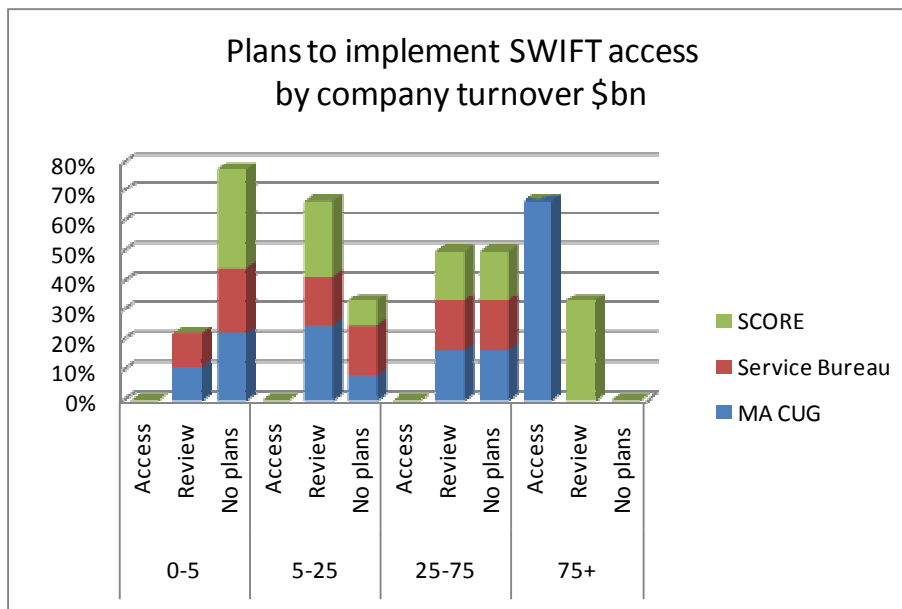
Fig 2.3.2

Overall, the most significant complaint was that the quality of information available was inadequate to improve the quality of the forecasting process and the horizon over which forecasts were presented (33%). Limitations in the available technology (17%) was another factor with others raised by participants also linked to technology, such as the lack of a common platform from which forecasts can be created. The underlying complexity of the business was also raised as an issue which prevents data from being collated effectively.

Forecasting has been on many treasurers' list of priorities for a long time but relatively few have made significant progress, except for industries where the costs and revenue streams are relatively stable. Cashflow forecasting was an area in which a number of participants indicated that they would like more information on how other companies had addressed some of the challenges; the Benchmark has already been developed to explore this area in more depth. Furthermore, companies were also interested to find out more about the availability of technology for forecasting and how to make optimal use of it which will be covered in detail on the Treasurers' Benchmark website.

## 2.4 SWIFTNet Access

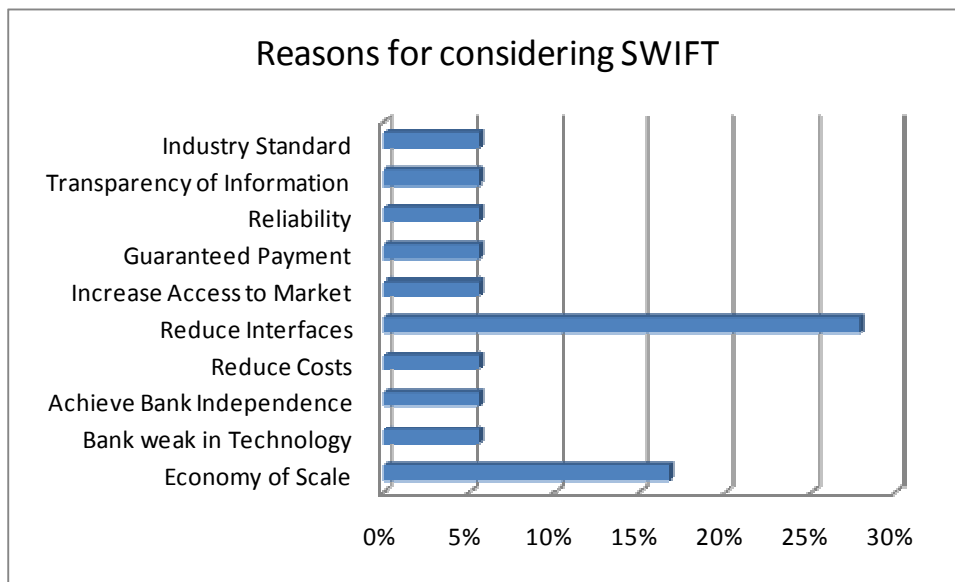
Although corporations have been able to connect to SWIFT in various ways for a number of years, the launch of SCORE (SWIFT Corporate Access) early in 2007 means that it is now much easier for corporations, particularly those with multiple banking relationships, to connect to SWIFT. Take-up of SWIFT has been slow in some markets, but with SCORE, many corporations, not only the largest, are starting to consider SWIFT as an alternative to their traditional banking connections. SWIFT connectivity is easier too due to the availability of service bureaux and member concentrators which allow corporations to outsource many of the elements of SWIFT connectivity.



**Fig 2.4.1**

As Fig 2.4.1 demonstrates, although SWIFT access is primarily the domain of the largest corporations at present, a broader range of companies are now considering it, particularly companies above \$5bn turnover. While it is not surprising that companies with a turnover of less than \$5bn see the least value, on the basis that the scale and complexity of cash management operations is likely to be less significant, it is interesting to note that the companies with a turnover of \$5 - \$25bn are expressing such a significant interest. It is interesting to note that since participating in the Benchmark, two companies, with turnovers of \$4bn and \$26bn have already started implementing SWIFT.

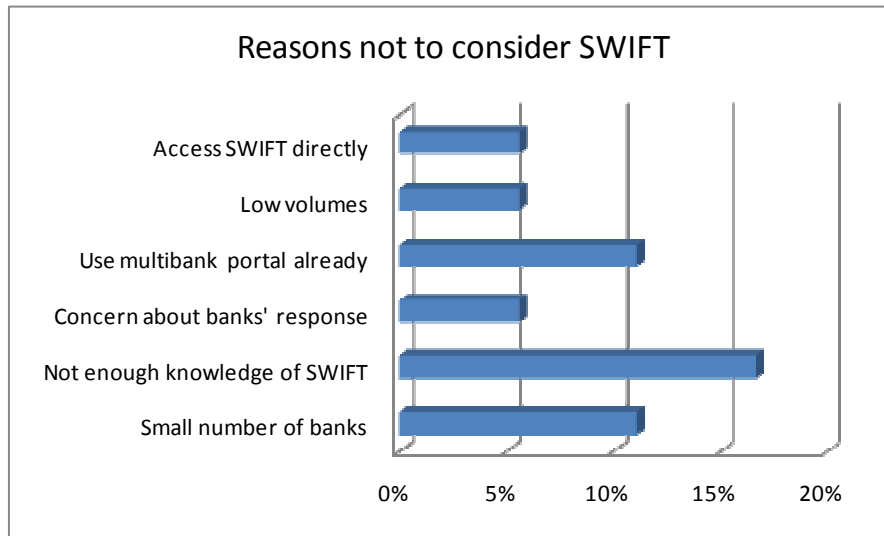
Companies' reasons for considering SWIFT access are as compelling as they are varied, as shown in the following figure:



**Fig 2.4.2**

As 2.4.2 illustrates, the trend towards centralization, with objectives such as reducing the number of interfaces and achieving economies of scale, is a significant driver in corporations' move to SWIFT. Other issues, such as security and the recognition of SWIFT as an industry standard are important, but less significant than the way in which SWIFT access can contribute to corporations' business and technology strategies.

Although there is a strong increase in interest in SWIFT, inevitably this is not universal. For example, companies of a turnover between \$25 and \$75bn were divided equally between those who were planning to review SWIFT and those who had no plans in this area. Although in some cases, companies are opting not to review SWIFT as they have already implemented a multi-banking portal such as SunGard's AG-eTX or have otherwise centralized their banking interfaces, this is largely driven by a lack of awareness about SWIFT and the potential opportunities, as fig 2.4.3 below illustrates:



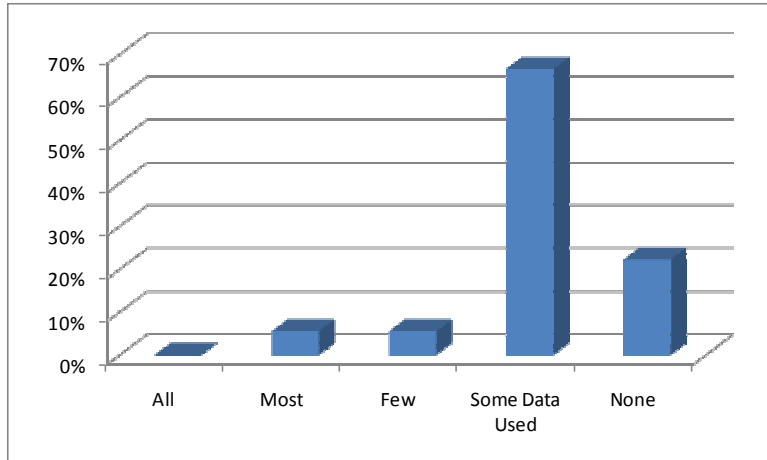
**Fig 2.4.3**

As companies seek further centralization, particularly in areas such as liquidity management and payables, SWIFT access is an increasingly strategic issue for corporations of a variety of different sizes and profiles. At this stage, there is still a lack of understanding amongst corporate treasurers about the opportunities which SWIFT presents, the differences between the various ways to access SWIFT and the relative advantages and disadvantages of each method. This will be an issue covered in detail on the Treasurers' Benchmark website and in related activities.

### 3.0 Board Reporting

It is frequently said that no treasury resembles another and it appears that nowhere is this more true as in the areas of Board Reporting. It is almost impossible to describe the range of Board Reporting conducted by treasury departments in a concise manner as every company has a different set of reports, which include, but not universally, areas such as the debt position, cash position, cashflow forecast, benchmark deviations, pension position, investment review etc. Bearing in mind that company executives of many companies have similar personal obligations for the financial reporting of the company, it is perhaps surprising that there is such significant divergence in the reporting which is routinely provided to the Board.

Board Reporting is considered onerous by many treasuries (which is explored further in the full Benchmark Report) and despite the degree of automation which has been achieved in other parts of the treasury function, Board Reporting remains largely manual, with 94% of participants performing the majority of their Board Reporting outside of their TMS, indicating that they either source some data from the system, which is then reconstructed manually elsewhere (in some cases combined with data from other systems) or is not used at all. Not one company participating in the Benchmark produced their Board Reporting entirely from their TMS in an automated way.



**Fig 3.1**

The lack of automation and the degree of manual resource required for Board Reporting would seem to be a significant limitation for virtually all companies. Treasurers are heavily focused on reliability, automation and straight through processing for their treasury operations, partly to avoid the risk of error and perhaps fraud. This focus seems to be lost when it comes to creating the reports on which senior executives are making the highest-level decisions for the company and which potentially form the basis of analyst, shareholder and senior executive confidence. Although it was not covered specifically in the Benchmark Questionnaire (which will be addressed in future iterations) some of the reasons cited by participants for not using their TMS included:

- Data for the Board Reports is often sourced from more than one system making it difficult to automate the creation of reports;
- In some cases, reporting is requested by the Board on an ad hoc basis rather than provided, routinely so it is difficult to use pre-configured report templates;
- The format in which Board Reports need to be presented is not the same as the formats presented using the TMS and/or reportwriter.

In addition to these factors, we would also highlight that not all treasury departments have sufficient report writing expertise or confidence. Even where the necessary skills exist, Board Reporting and other reporting required by senior management does not seem to be a priority. While combining data from multiple systems is less straightforward than using a single system, there are increasingly ways of sourcing data from multiple systems and combining it in a robust and reliable way without the need for manual construction of reports. Options for doing this do not seem to have been fully explored or prioritised amongst treasuries.

When treasuries acquire a TMS, Board Reporting is either considered a critical requirement or at the other extreme, treasurers believe it to be so complex that it could not possibly be replicated using a TMS and so is excluded entirely from the project scope. In the former scenario, other priorities then seem to take over, or the problem of generating new reports in a familiar format emerges (particularly when

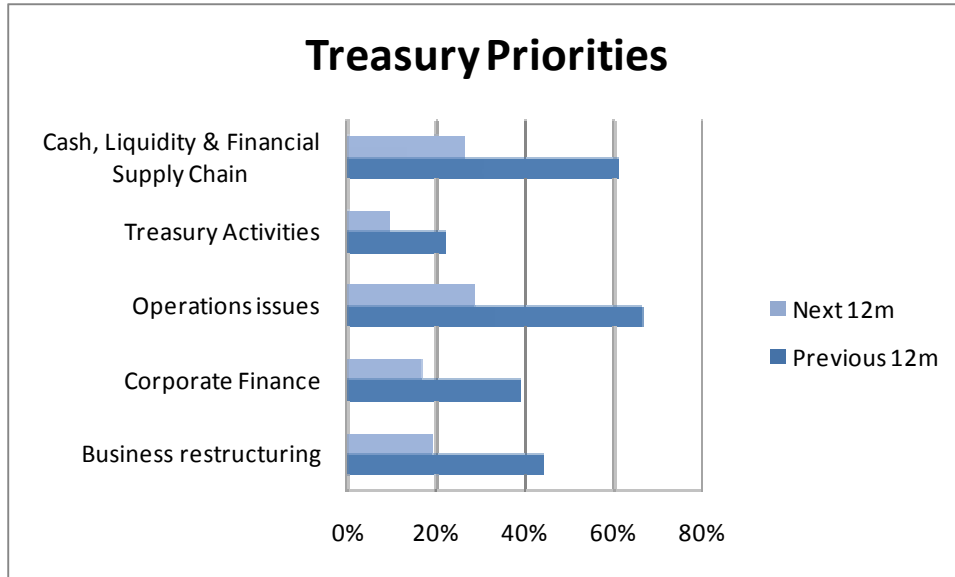
moving from a spreadsheet-based environment to a database). In the latter, companies often do not look at the potential ability to automate the process of creating Board Reports.

There are various reasons why this issue should be prioritised, including:

- With companies subject to either Sarbanes-Oxley or comparable regulatory requirements, the adequacy and reliability of executive reporting is paramount. Despite the progress which has been made in automating and securing the underlying business processes, the manual creation of the Board Reporting would appear to be a weakness in many treasuries;
- Treasury departments can demonstrate value upwards within the organization by proactively engaging with the Board, through the Treasurer or CFO, to find out what information (rather than what format) is required and for what purpose, work with the TMS vendor to develop the necessary report templates and propose a set of reports which can be produced routinely. This should enable treasurers to take more control over the Board Reporting process, produce information more promptly and with greater confidence and reduce the amount of resource required. Although company executives may have a preference for reports produced in the way with which they are familiar, this is likely to be less significant if they are aware that these reports are manually produced with the associated risk of error.

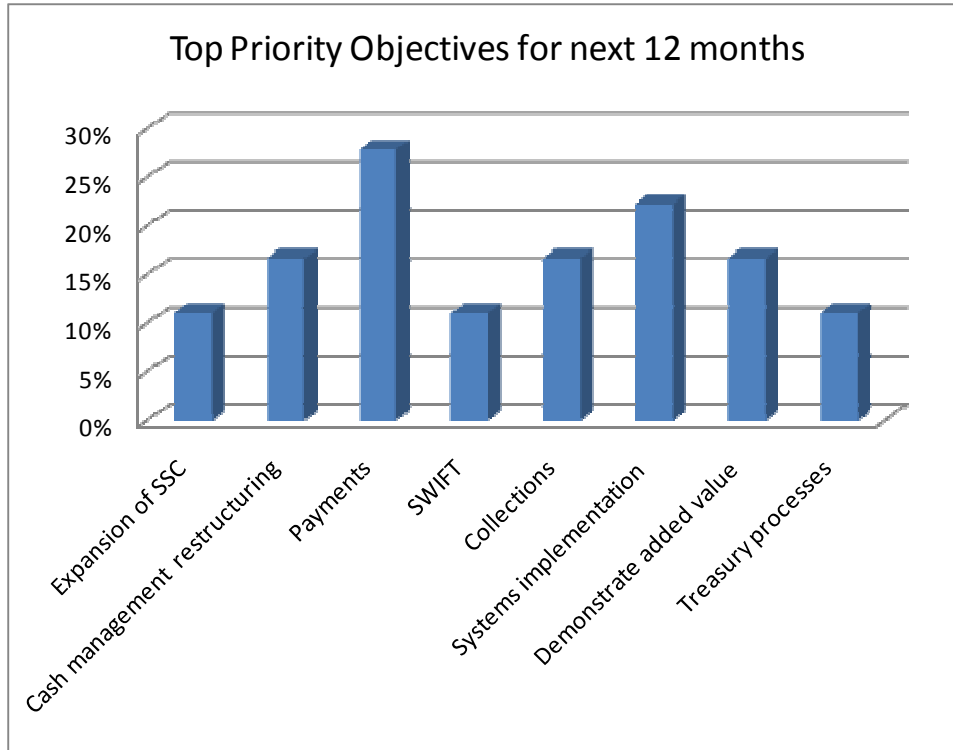
## 4.0 Strategic Priorities

Participants listed a wide range of priorities for the next 12 months which included many of the activities which have been important during the past year but also with some noteworthy changes. The biggest reduction relates to business restructuring, including mergers, acquisitions and dispersals, from 19% to 7%. This is not to say that these activities will not happen, nor that they will be less of a priority, but it is a difficult area to plan ahead. The biggest increase, however, is likely to be in the area of cash, liquidity and financial supply chain management, with an increase from 26% to 45%. Within this category, the majority of planned strategic activities relate to payments, including payments optimization projects, growing or setting up payments factory/SSC and implementing SWIFT.



**Fig 4.1.1**

The detailed priorities were too numerous to list individually as every company has its own approach, but 4.1.2 below illustrates priorities which were listed by more than 10% of participants. After payments, as already discussed, the second priority is systems implementation/upgrade with 22% of participants engaging in systems activity. It is relevant to mention that systems implementation is considered a strategic rather than a purely operational activity by treasurers, with technology forming the hub of the treasury function. This is not necessarily only the core TMS, with participants also implementing payments solutions such as SunGard's AvantGard Payments. Two other noteworthy trends, one of which has been noted earlier in this report: firstly, the rising significance of collections, which was not raised as a key activity over the past 12 months by any participant, to 17% for the coming year; secondly, the concern articulated specifically in this section of the Questionnaire by 17% of participants and suggested by many others during the course of the interview, that they needed to demonstrate "added value". Clearly there are many ways in which treasury adds value through its day to day operations, both in its services to the wider business and in its interaction with the external markets. However, many of treasury's activities may not seem "visible" to the wider business, including the CFO. Consequently, treasurers are increasingly seeking ways of expanding the value they provide to the organization in a demonstrable fashion, of which the focus on payments, collections and other elements of the financial supply chain are examples.



**Fig 4.1.2**

## 5.0 Participating in the Treasurers' Benchmark

Although this “Highlights” Report is generic in its nature, and therefore cannot reflect completely the Benchmark Report for your company, we hope it gives some insight into the way that the Treasurers' Benchmark works and how it can be used in practical ways.

As well as receiving the Benchmark Report (an updated version of which you will receive each year) participants in the Treasurers' Benchmark also have exclusive access to the members' section of the Treasurers' Benchmark website, [www.treasurersbenchmark.com](http://www.treasurersbenchmark.com). This includes an on-line discussion forum on topics and questions raised by participants, unique case studies, on-line training and topic focus sections.

It is worth reiterating that all data held by the Treasurers' Benchmark is held confidentially and is not revealed in any form to other participants.

If you would like to discuss the Treasurers' Benchmark in more detail, please contact us at:

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