Corporate Treasury: The Role of Technology during and Post-Crisis
Contents

Two Different Responses to the Crisis ................................................................. 3
Lesson Learned: Information Is Power ................................................................. 4
Empowering Treasury for the Future: The Role of Technology .......................... 4
Conclusion ........................................................................................................... 5
The economic crisis created new challenges for all large corporates, regardless of their size or industry. Aite Group research has found that the organizations that most effectively weathered the storm and overcame those challenges were those with the ability to access mission-critical information that was timely, accurate, and usable. This article looks at some of the key lessons learned by corporate treasury groups as they navigated the crisis and highlights some of the areas of focus that many will turn to in the months and years to come.

Two Different Responses to the Crisis

different: It was not rescued. In addition, as one of the largest financial institutions in the world, nearly every treasury group had exposure to the firm, either directly or indirectly. Corporate treasurers around the world knew the ripple effects would be unlike anything experienced before.

Within minutes of the announcement, treasurers around the globe received panicked calls from their chief financial officers (CFOs) asking “What are our exposures to Lehman?!” At that moment, treasury groups generally had one of two very different reactions: A fortunate few breathed a sigh of relief, while scores of others felt their pounding hearts stop. While this initial experience was significant, it was only the first of many similar calls over the next few days, weeks, and months, as CFOs called to ask about exposures to money-market funds that froze or “broke the buck,” risks stemming from the collapse of the world’s largest insurers, and the failure of two top 10 U.S.-based banks, among dozens of additional financial nightmares. Treasury had never before been as visible within the organization, nor as critical.

Looking back, the driving forces behind these two different corporate reactions may be slightly less obvious than appeared at first glance. The initial reactions of those that breathed a sigh of relief were not due to this group having significantly smaller exposures. In the case of Lehman Brothers, nearly everyone was vulnerable. Rather, the primary driver of the relief or panic felt was whether the treasurer was able to identify the amount or extent of the exposure when the CFO called requesting it. Further, the impact of knowing these exposures extended beyond the simple ability to provide information to the CFO; the less time it took to identify the extent of the problem, the less time it took to resolve it.

One year later, discussions with industry practitioners reveal that the most influential factor for treasury groups that successfully navigated the last 12 to 18 months hinged on whether needed information was readily available, usable, and accurate. Treasury groups have been consistent in their feedback: Information is power. Unfortunately, for a large majority of corporations, critical information was located across a variety of disparate internal and external systems and spreadsheets.

The needed information varied considerably by treasury group, from the counterparty exposures mentioned previously to global cash and liquidity positions, future cash needs, working capital balances, and more. Because of this, all corporations depended heavily on a combination of their internal systems, bank online reporting platforms, and third-party solutions, such as enterprise resource planning (ERP) and treasury management systems, risk management products, and tools, among others. When these systems shared information readily and seamlessly, treasury was positioned to respond swiftly and intelligently as events occurred.
Lesson Learned: Information Is Power

Among the many lessons learned from the crisis, one of the most common themes Aite Group heard from the corporate community was “information is power.” Critical data exists across a corporation. This information needs to be aggregated to provide a full and accurate picture of companies’ situation for regulatory compliance, management control, and investor needs. Beyond the internal reporting, such data helps corporations assess trading partners and better manage those relationships.

Effectively and efficiently performing many of the most critical treasury functions depends largely on the integration of the multiple systems on which the information is stored. For example, optimizing liquidity requires the ability to identify global liquidity positions on-demand across many banks. Effective risk management demands immediate access to counterparty exposures, and functions such as working capital management, cash forecasting, and fraud are no different. The effectiveness and success of a treasury group depends heavily on the ability of its information sources to connect and integrate with one another.

Empowering Treasury for the Future: The Role of Technology

Corporations use a variety of systems to access information that is timely, accurate, and usable, including treasury management systems, dedicated risk management solutions, market information systems, investment management systems, ERPs, and more. Discussions with industry participants indicated, at an aggregate level, that the most critical information corporations needed during the last year was related to providing the following:

- Visibility Into Global Cash and Liquidity Positions: This refers to the ability to accurately determine end-of-day cash positions and day-to-day borrowing needs. Unfortunately, however, much of this information exists across myriad internal and external locations, and many treasury groups struggled to get information that was as clear as they desired. To solve this, successful companies have invested in technology solutions to automate this process. Such systems poll an organization’s banks and aggregate positions across accounts, automating what could be a full-time process prone to manual errors into a streamlined, easy-to-access, accurate process (assuming the banks pass accurate information).

- Risk Management: During and post crisis, corporations face exposures to financial risks ranging from various investment vehicles (i.e., money-market funds, asset-backed securities, etc.) to counterparty risks due to failed banks and even supply-chain and channel partner risk. Systemic challenges such as credit and other risks also exist. Until this crisis, however, Aite Group believes risk management was one of the most underfunded investments in treasury groups large and small. Because of this, it is of little surprise that risk is front-of-mind to all treasury groups, and many are looking to put systems in place as they move forward.

- Working Capital Automation: Corporations of all sizes identified working capital as a key area of focus. Solutions that automate working capital management empowered corporations by shortening the cash conversion cycle. Further, as working capital is often financed by bank credit lines, reducing borrowing needs by utilizing the corporation’s own cash means lower interest costs. Corporations look to their banks and technology vendors to support these processes. These solutions address both the transaction-level needs of accounting groups, such as reconciling payments received or event-driven payables released, and aggregate information to assist treasury in cash positioning, forecasting and other liquidity management functions.

Treasury groups that had implemented the technology necessary to access this information prior to the crisis were often able to act in near-real-time—much more quickly than those that had not. Based on discussions with treasury groups, vendors and banks, Aite Group estimates that approximately 90% of U.S.-based corporations with annual revenues of less than US$1 billion struggled to access mission-critical information when it was needed and have yet to invest in the necessary technology to do so. For these firms, much of the last year or two was spent trying to keep up, rather than on looking ahead. While larger
organizations generally had technology in place, many still struggled due to greater exposures and higher vulnerability to global risk. Aite Group estimates that 65% of firms around the globe with annual revenues greater than US$1 billion had technology in place to support their most critical needs as the crisis played out.

Figure 1: Corporations Struggled to Gather Data During the Crisis

![Chart showing data gathering during the crisis]

Source: Aite Group

Conclusion
The financial crisis taught the treasury community a variety of lessons, prime among them that information is power. To be successfully leveraged, however, information must be easily accessible, accurate, and available on-demand. This often requires the use of various treasury technology solutions, many of which have yet to be deployed by most treasury groups. As corporations of all shapes and sizes emerge from the crisis, Aite Group expects that many will take advantage of their new-found roles of influence and implement solutions that support them in a variety of tasks, most significantly visibility into global cash and liquidity positions, risk management, and working capital management.