Inquiry

NO. 16

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Ascent to Power: Corporate Treasury's New Role in the Business

CEOS WANT TREASURY GROUPS TO BECOME STRATEGIC BUSINESS ADVISORS. BUT TREASURIES CAN'T DO IT ALONE. BANKS MUST HELP THEM FULFILL THAT ROLE—OR BE REPLACED.

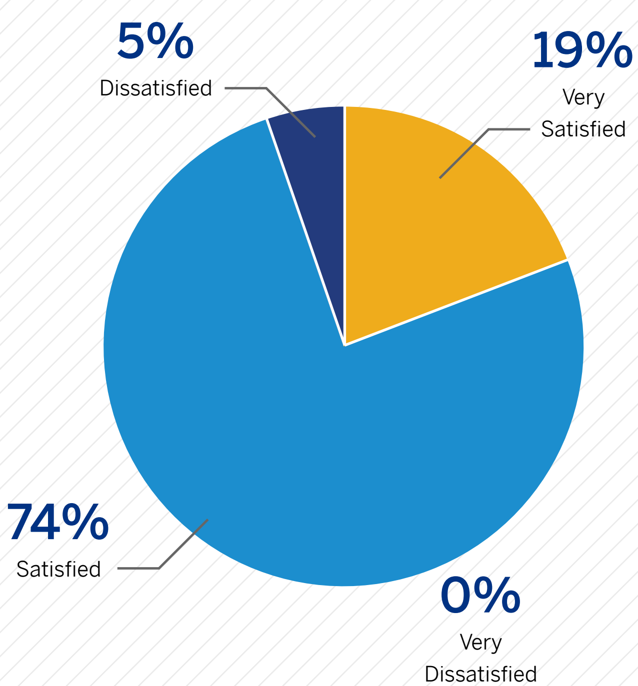
Corporate treasury departments have outgrown their relationships with banks. Globalization and risk management concerns have naturally led corporate treasury organizations to diversify their financial service suppliers over time, leaving them with a tangled mess of multiple banking partners who have seemed more interested in selling them transactional products than in adapting to their evolving needs.

Meanwhile, corporate treasurers are facing pressure from their CEOs to become strategic partners rather than fund managers. In a recent global survey by SAP and CFO Research, companies said that they are looking for intelligence from their treasury functions to aid in corporate decision making, whether the decisions are related to cash flow, funding, or risk considerations. Yet treasury functions lack the standardized banking network and universal access to their banking information that would enable them to provide that insight.

As a result, corporate treasurers are trapped between expanding demands from the business and the complex and inflexible relationships they have with their banks, making it difficult to function effectively either at an operational level or as strategic advisors in corporate decision making.

Corporate treasurers cannot afford to tolerate the status quo for long. Just 19 percent of survey respondents said that they are "very satisfied" with their current banking partners. Nearly all (91 percent) report that they expect to scrutinize financial services providers more thoroughly in the next two years, with more than a third definitely seeking new banking partners and almost half at least considering new banks (see Figure 1).

How satisfied are you with your current commercial banking partners?



Is your company likely to scrutinize current or prospective financial services provides more thoroughly over the next two years?

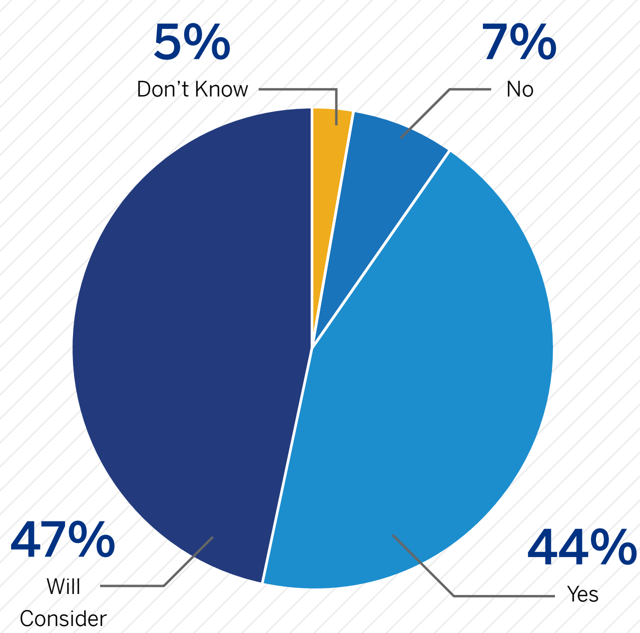


Figure 1: Corporate Treasurers to Scrutinize Banks More Thoroughly
Note: percentages may not add up to 100 due to rounding.
Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

Banks are suffering under the current state of affairs, too. Each new corporate treasury connection they create is costly and time-consuming; millions of revenue dollars are lost during the onboarding period. And there is no standard foundation on which banks could build the kind of value-added services that their corporate customers crave today in areas such as liquidity, foreign exchange, cash forecasting, and funding optimization (see Figure 2).

Meeting these demands will require a new approach. Banks can help treasurers—and in the process help themselves—by embracing a neutral network between themselves, other banks, and their corporate clients. Bank-agnostic connectivity would cut costs and increase efficiency for both parties and pave the way for the kind of end-to-end visibility into the financial supply chain that the 21st century treasury organization requires.

The survey shows that corporate treasurers have been called upon to become strategic advisors to the business. It also shows that treasurers would like banks to play a critical part in helping them fulfill that new role. Corporations are looking not only for better partners in their individual banking relationships but also for higher-value advisory services. In other words, banks must take on a similar strategic role for treasurers that treasurers are being asked to take on for the business.

Today, the relationship between banks and their corporate treasury clients is based more on what transactional services the bank can offer. Tomorrow, it will center on the amount and quality of insight the bank can deliver. This is what a mature relationship between treasuries and their banks looks like.

What is treasury looking for from its banking partners? A sampling:

"Greater sophistication in FX and derivatives"

"Better cross-border flows and pooling"

"Multisource funding"

"Regulatory awareness"

"Cash-pooling services"

"Local bridge loans to cover import duties and related fees"

"Factoring"

"Additional and efficient sources of funding"

"Better risk management expertise"

Figure 2: What Corporate Treasurers Want

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

The Rise of the Corporate Treasury

A fundamental shift has taken place in corporate finance. As business leaders seek to incorporate complex cash flow, funding, and risk considerations into management decision making, the corporate treasury department finds itself in a new seat of power within the enterprise.

However, with power comes added responsibility. Treasury must answer to more stakeholders than ever before—not just an increasing number of internal partners but also investors, regulators, and rating agencies, for a start. According to the survey, nearly two thirds of respondents say they expect to see some degree of change in treasury over the next two years (see Figure 3); among large companies ($10 billion in revenues or more), 16 percent cited the need for "significant" change in the treasury function overall.

> "TREASURY IS NOW THE FINANCIAL NERVE CENTER OF THE FINANCE ORGANIZATION."

Laurie McCulley, Partner, Treasury Strategies

Once little more than a transaction-processing function, "treasury is now the financial nerve center of the finance organization," says Laurie McCulley, partner with independent consultancy Treasury Strategies. Treasury Strategies describes the transformation as an evolution from Treasury 1.0, when treasury played an operational and clerical role, and Treasury 2.0, when it became more analytical and proactive, to Treasury 3.0, when treasury will become advisory and strategic.

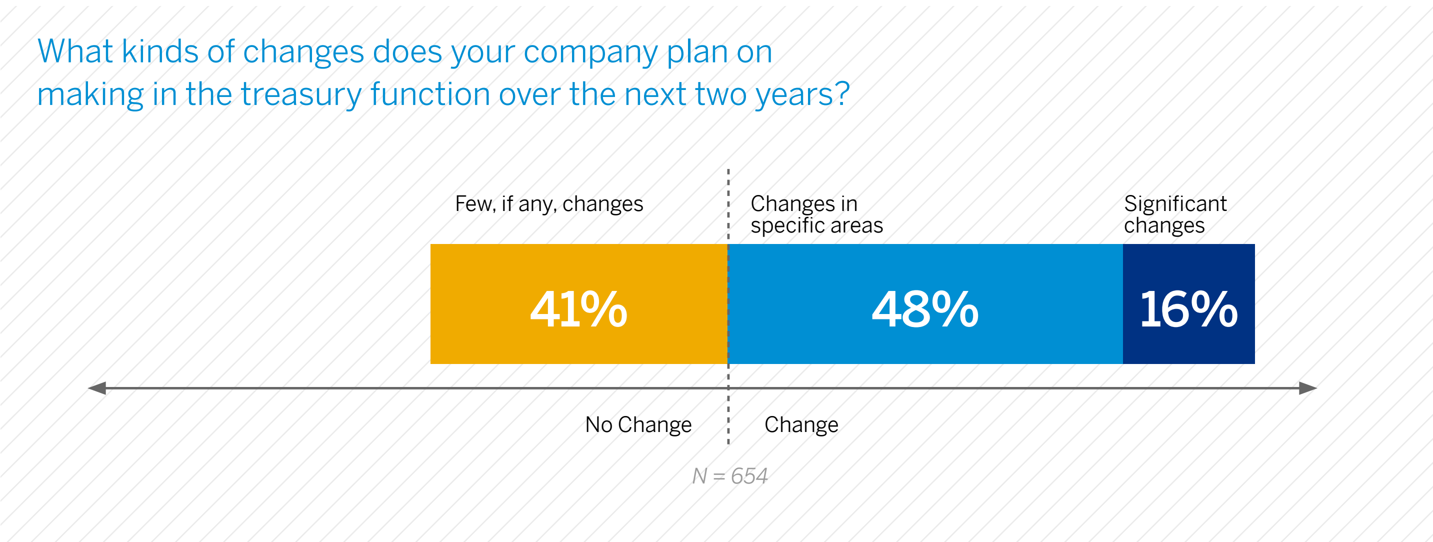


Figure 3: Changes Ahead for Corporate Treasury

Note: percentages may not add up to 100 due to rounding.

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

Visibility Is Needed to Turn Data into Advice

Perched atop a mountain of data that could enable the business to make better decisions across the enterprise, the treasury department is looking for the kinds of centralized technology, processes, and advice that will enable them to turn their financial information into strategic insight (see Figure 5 on the following page).

The key to meeting the new demands for such business intelligence is visibility across the financial supply chain, something corporate treasurers find lacking in their existing information systems and processes. According to the SAP/CFO Research global survey, just 22 percent of respondents said that their information systems currently support treasury "very well" (see Figure 4).

How well do your current treasury information systems and technology support the treasury function's goals?

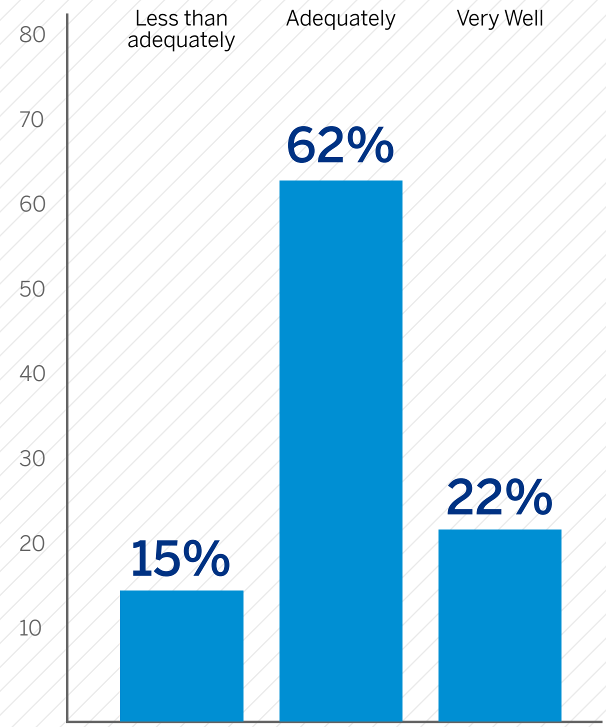


Figure 4: Information Systems Fail to Meet Treasury's Goals Well
Note: percentages may not add up to 100 due to rounding.
Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

What are your company's three most important priorities for improving treasury performance?

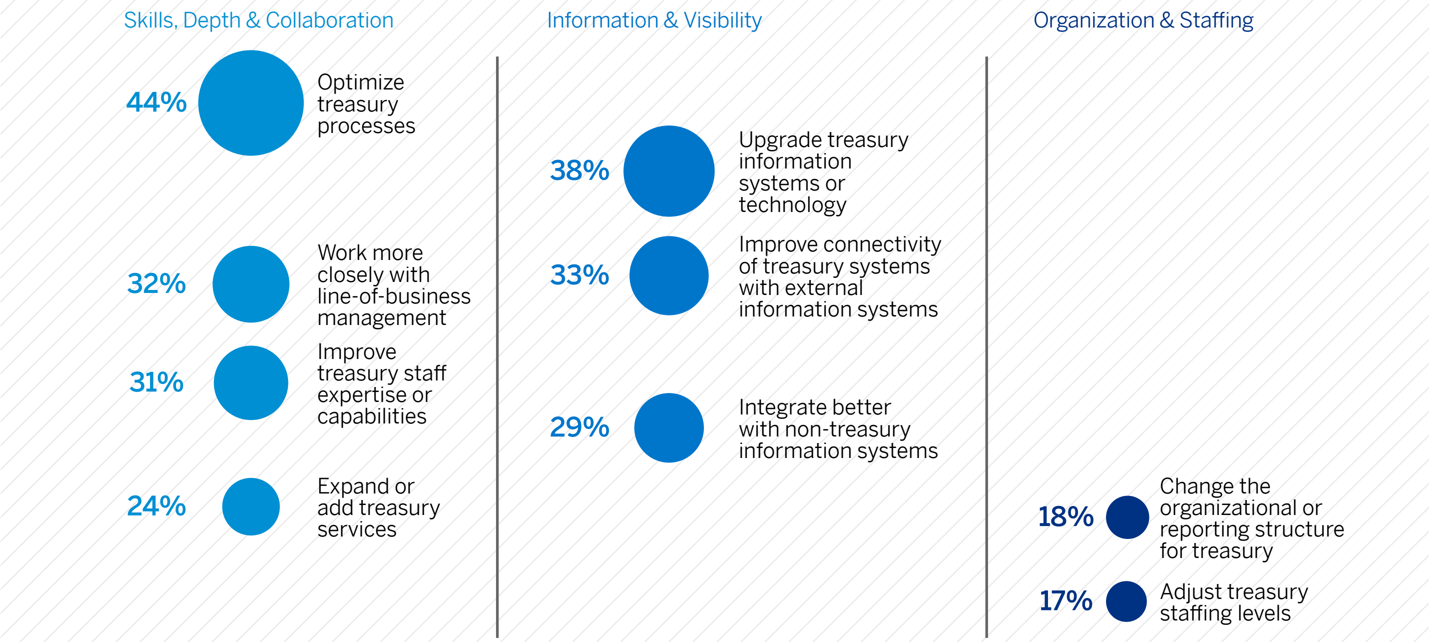


Figure 5: Companies Are Demanding That Treasury Improve in Two Primary Areas

Note: Respondents were allowed to make up to three selections.

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

The View from the Top

CEOs see a greater need for significant improvement in the areas of strengthening liquidity, reinvesting in the business, and allocating funding than their finance executives do.

The view from the trenches is often different from the view at the top, and that was clear when comparing responses of treasury executives to those of their CEOs and CFOs in a recent global survey conducted by SAP and CFO Research.

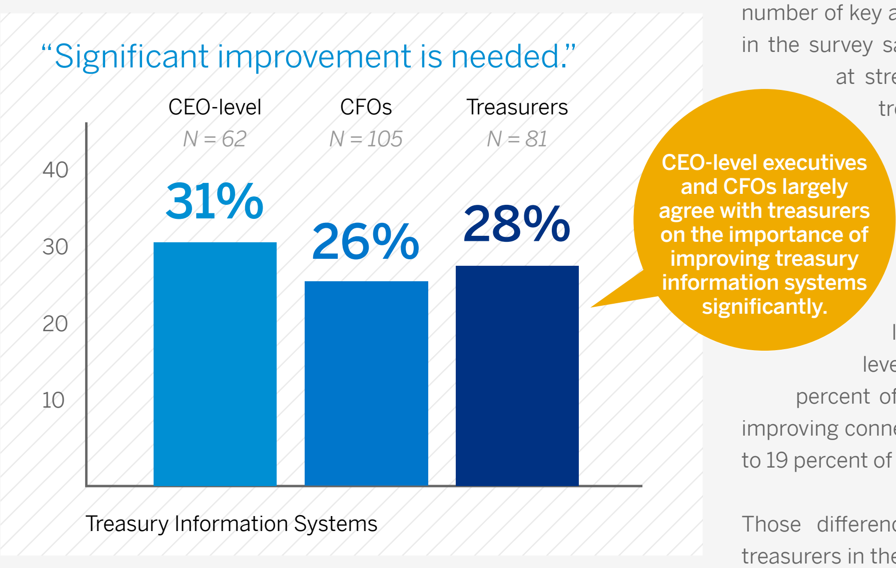


Figure 6: A Third of CEOs, CFOs, and Treasurers Cite Need for Significant Systems Improvement

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

CEOs, CFOs, and treasurers all rated the accuracy of cash flow forecasts as one of their top improvement priorities for treasury. About 30 percent of each group says that the need to improve forecast accuracy is significant. All three agreed on the importance of improving treasury systems, as well, again with around 30 percent of CEOs, CFOs, and treasurers noting that those systems required significant improvement (see Figure 6).

However, CEOs differed with their treasury and finance executives in a number of key areas (see Figure 7). Forty percent of the chief executives in the survey say that their treasuries need to get significantly better at strengthening liquidity, about twice the rate of CFOs and treasury executives, who indicated significant improvement was needed in this critical area.

Other areas where the survey reveals gaps in expectations include optimizing internal funding across different countries and reinvesting cash in the business. In each instance, CEOs are at least twice as likely as finance executives to see a need for a significant level of improvement in those functions. In addition, 38 percent of CEOs thought significant improvement was needed in improving connections and communication with third parties, compared to 19 percent of CFOs and 23 percent of treasurers.

Those differences in perception could spell trouble for corporate treasurers in their fledgling positions of power in the organization. Banks have the opportunity to help treasury close that performance gap with better communication and connections or real-time aggregated cash and liquidity information, for example.

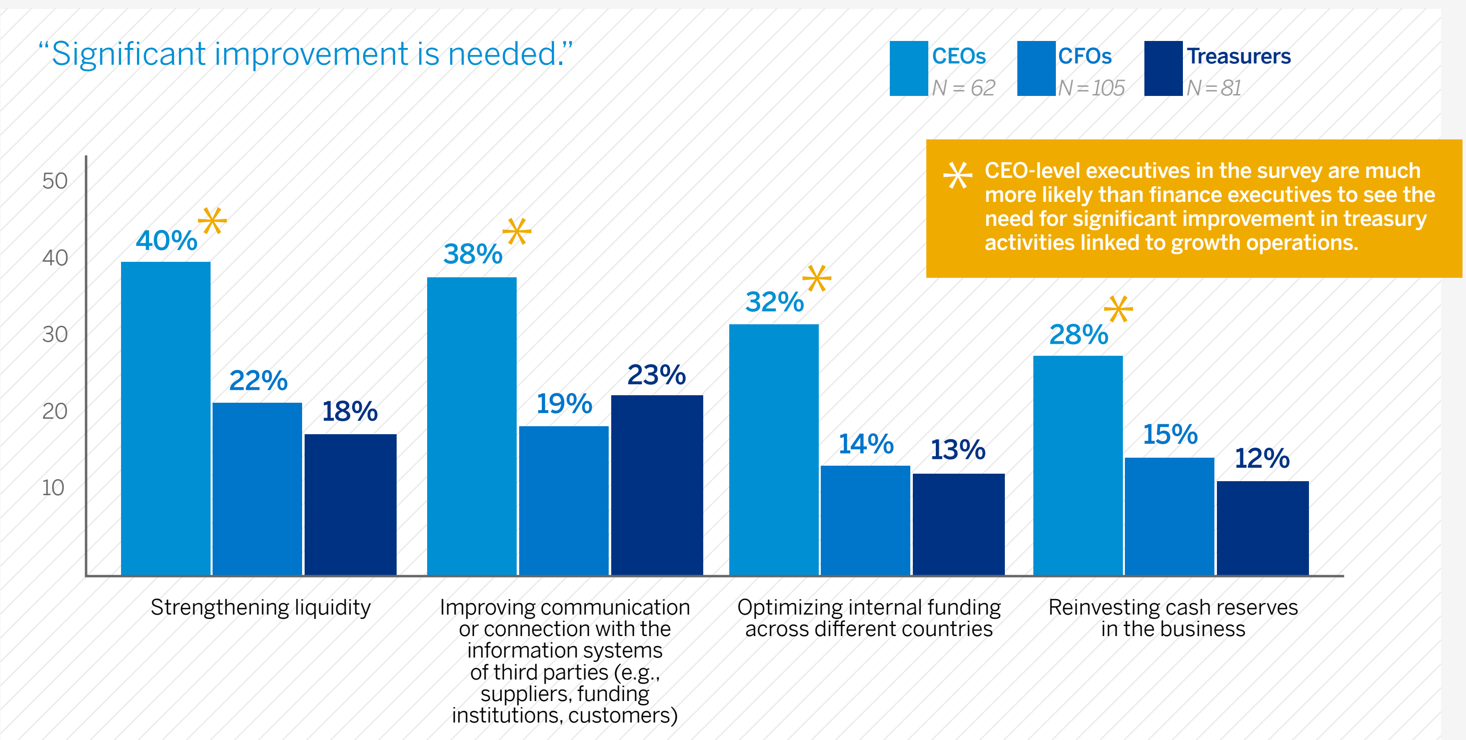


Figure 7: CEOs Have Higher Expectations for Improvement

Note: multiple responses allowed.

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

The Bank-Treasury Disconnect

Understanding where your risks lie is more strongly desired now than it was 10 years ago. CEOs want a treasury function that can see around corners and provide instant intelligence for corporate decision making. However, today it's difficult for corporate treasurers to see, even at an aggregated level, what's right in front of them, let alone what's ahead. If the CEO or CFO walks in today and asks, "Do we have a bank in Spain? What's our total exposure? What are we doing about it?" no corporate treasurer wants to be caught flat-footed.

Yet bound by individual relationships and one-off connections with each of their banks, treasurers still cannot quickly and effectively gather information across business units, functions, technologies, geographies, and commercial banking partners to deliver that critical information to management in a timely fashion, let alone rebalance their risk quickly. A single corporate treasury can have as many as 85 different connections to financial institutions around the globe. Every bank has slightly different security standards and its own format for integrating with enterprise systems to make payments. So every time corporate treasurers want to go to a new bank for service, they must set up a unique pipeline to that financial institution, a potential months-long project. Even then, there are problems. Of survey respondents, 65 percent reported some difficulty with the connection and communication between their systems and their bankers' systems (see Figure 8).

The payment processing services that banks provide to their corporate clients are not strategic, but they are the foundation of everything that happens in cash management. Yet because most companies work with multiple banks, their treasuries can't create a single, integrated financial supply chain that would allow them to analyze data more quickly and better visualize how forces in the financial supply chain fit together.

Which of the following statements best describes the ease with which your company's treasury systems connect and communicate with the information systems of its commercial banking partners?

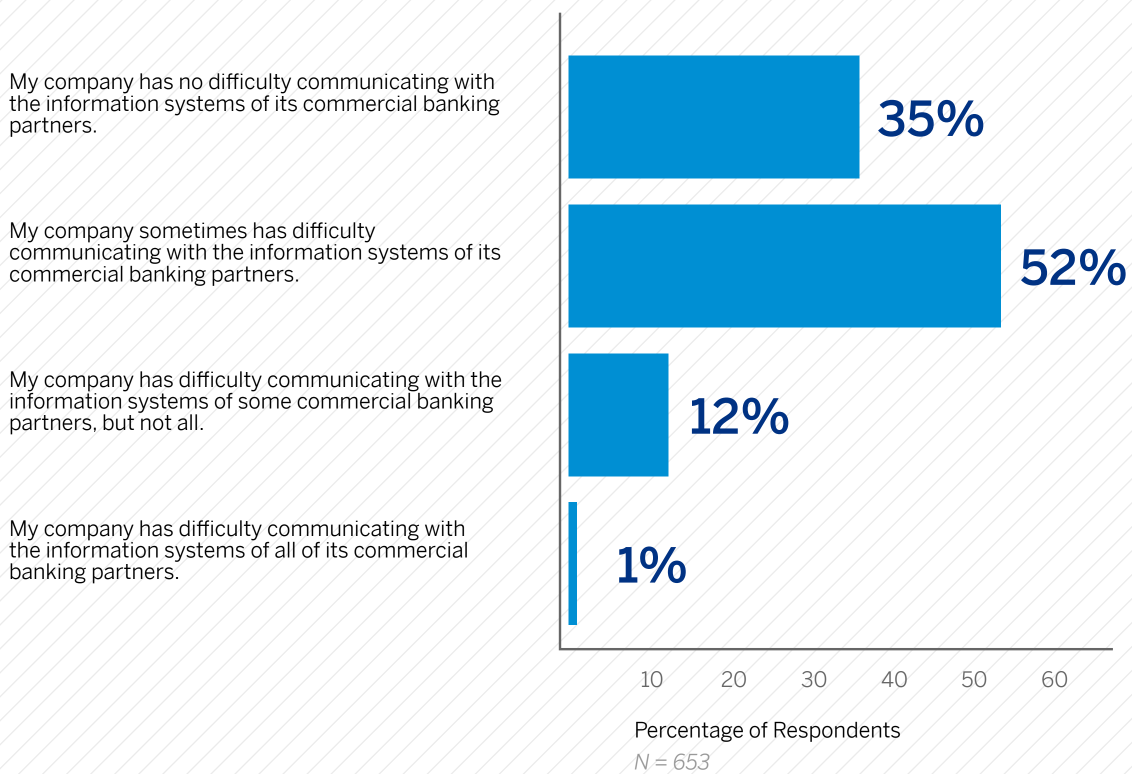


Figure 8: Treasury Departments Report Difficulty Communicating with Banking Partners

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

Risk Has Become a Critical Advisory Task

When the financial crisis hit in 2008 and banks began to fail, business leaders looked to their corporate treasury organizations to provide an instant picture of their exposure and risk. That visibility into cash positions was difficult to produce without a complete, overarching view of the financial supply chain. Each banking partner held that information in a different format or tracked it in different ways.

In the post-recession economy, treasury needs to manage risk better across multiple banking relationships, moving markets, and the economy, and it must make data-driven decisions based on the flow of information in and out of its enterprise systems. They need to leverage their banking partners' data and core competencies and blend them with their own backend systems to help the business make better decisions.

Not Just Data, a Partnership

But treasurers don't simply want better, more consolidated data feeds; they also want help making sense of it all. Many survey respondents said that they are looking for more consultative services from their banks—a true banking partner rather that an efficient payment processor. Finance executives surveyed want their banking partners to work with them on the wide range of issues that their treasury functions are facing in the post-recession economy, including foreign exchange expertise, liquidity management, regulatory awareness, and multisource funding.

Those banks that don't step up soon risk being replaced. Nearly four out of five of survey respondents say that they will either definitely seek or at least consider seeking new banking partners over the next two years (see Figure 9).

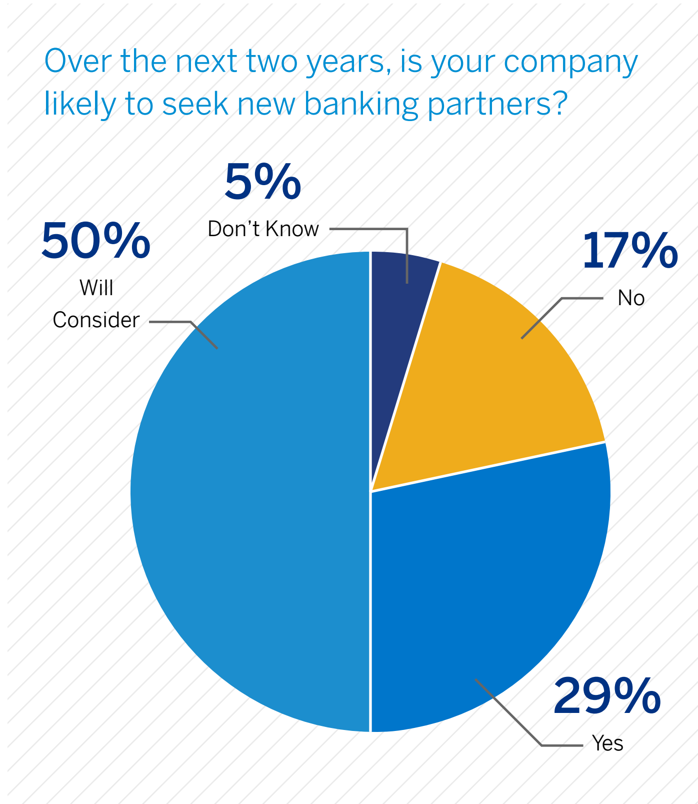
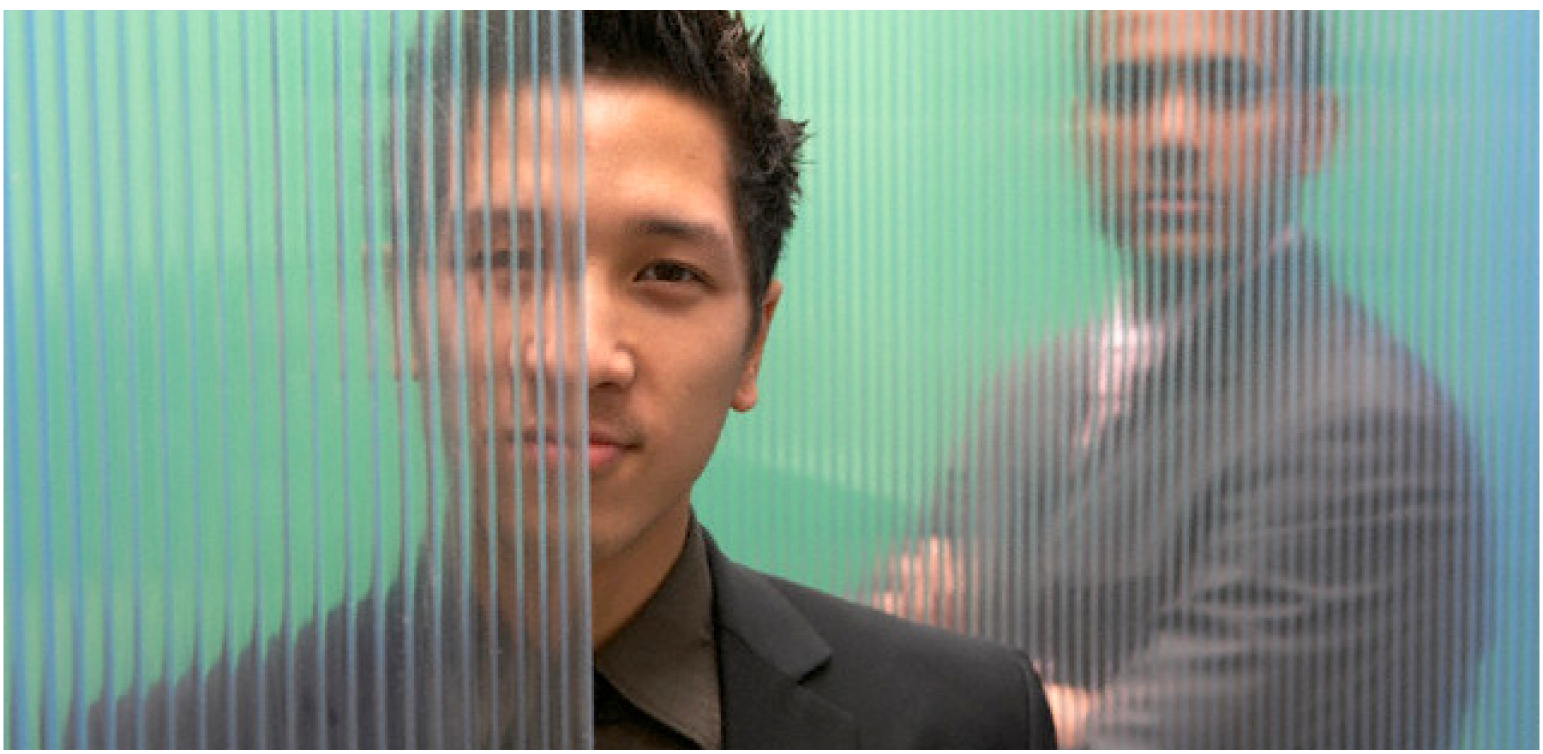


Figure 9: Treasury Open to New Banking Partners

Note: percentages may not add up to 100 due to rounding.

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*



Banks Also Need Visibility

But banks have the same problem as treasury departments. They can't see across customers' financial supply chains, nor can they see adequately across their own customer bases. No bank has been able to afford to scrap its singular connections and build the kind of common infrastructure necessary to gain the appropriate level of insight that would enable them to offer higher-value advisory services. However, cloud-based services represent an opportunity for banks to meet the expanding needs of their corporate clients. Both banks and corporate treasury departments could benefit from standardized integration in the cloud that would minimize onboarding costs and lengthy development projects. While other bank-agnostic network solutions exist, a cloud-based connection could serve as the foundation for banks to take advantage of real-time analytics in order to provide more strategic solutions and services to corporate treasurers.

In fact, corporate treasury customers will demand such solutions. According to the survey, a total of 57 percent of respondents say they would either be early adopters or fast followers of cloud services for banking relationships, with just 9 percent shying away from cloud solutions altogether (see Figure 10). As one respondent noted: "We would benefit [from] the chance to store all past transactions over a public cloud with availability to query data on several dimensions." And SAP/CFO Research global survey respondents who say they will need "significant improvement" in their banking relationships are twice as likely as others to be ready to adopt cloud services; 38 percent say their companies would be early adopters of cloud computing for banking relationships, compared with just 16 percent of all other respondents.

Which of the following statements do you believe best reflects your company's position on using cloud computing technology to automate its banking relationships?

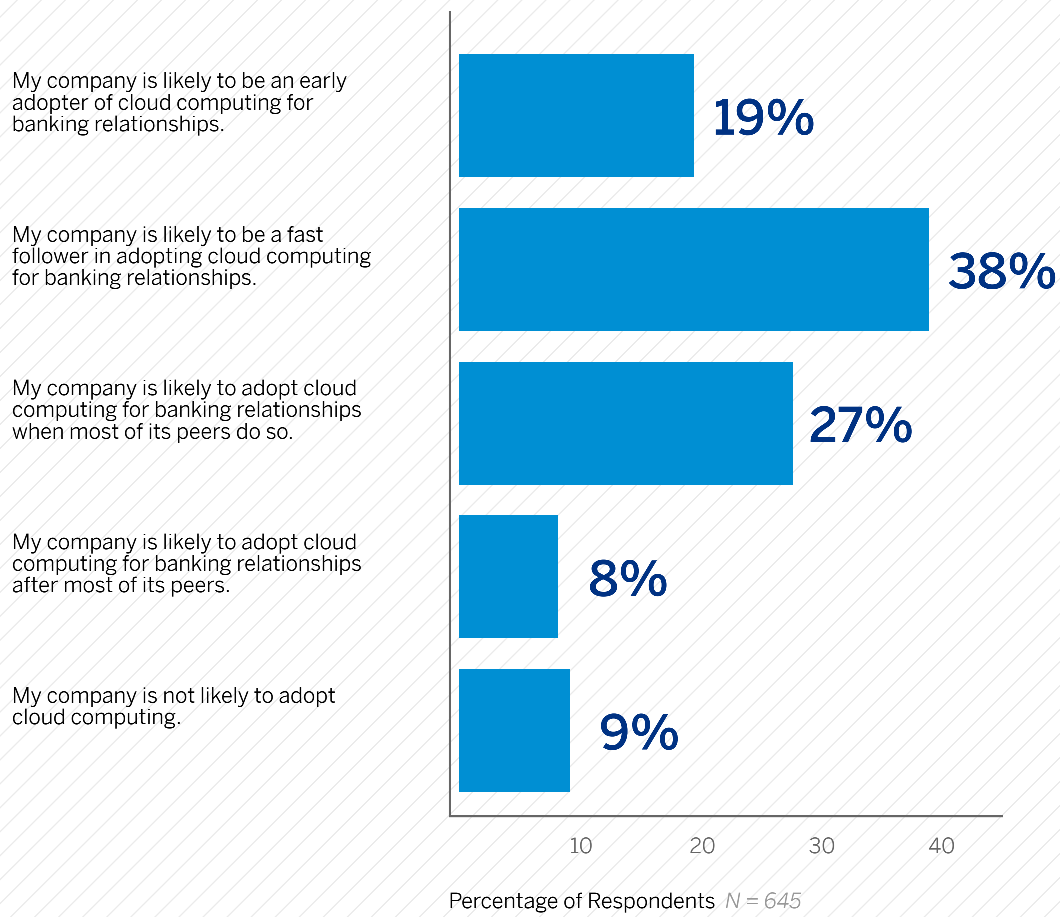


Figure 10: Corporate Treasury Customers Want Cloud Services from Their Banks

Note: percentage of respondents may not add up to 100 due to rounding.

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

The Services Banks Could Offer If They Had Insight

If a new type of information marketplace were established between all of the banks and all of the corporate treasurers, banks could receive and send financial-related messages, including payments, payment statuses, and statements, and automate collections, reconciliations, settlement updates, financial reporting, and other key processes on a common platform. They also could take advantage of that platform to build services based upon that underlying network of information. Banks could introduce more advanced offerings via an app store for corporate treasurers, such as:

- **Foreign exchange guidance.** For example, corporate treasurers may need to be understand their global positions across all subsidiaries around the world relative to foreign exchange rules that dictate how big a position the company can have in each country. A bank could use its own intelligence on currency regulations in the country and on foreign exchange volatility to help proactively determine what size position a corporation should have within a given subsidiary and walk the client through the cash pooling or movement of foreign exchange cash between different countries to be compliant.

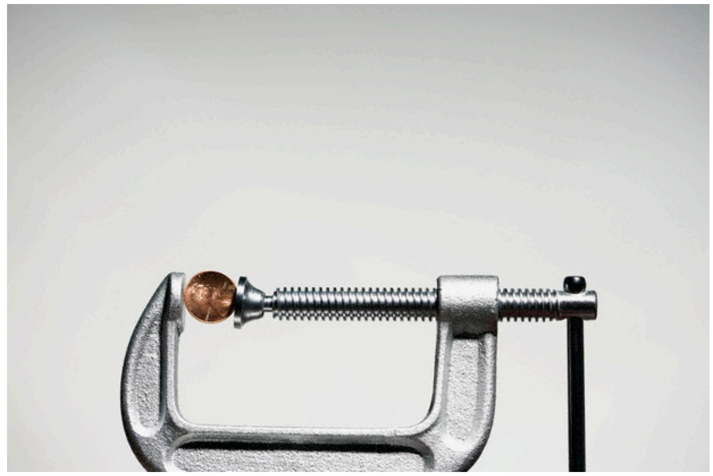
- **Reconciliation efficiency.** Only about half of the actual cash that's received by corporate treasury in a given day is actually applied where it's supposed to be on that day. Banks could provide a reconciliation application to take the tremendous costs out of reconciling cash in with cash out.

- **Supply chain financing.** Once a bank can see a client's invoices and purchase orders, it can forecast future cash flows and offer credit extensions against them.

- **Real-time volatility risk reporting.** Banks could offer real-time volatility risk reporting against the current cash exposure in a country. Aggregating that data over time could be used to offer customers an accurate early-warning system for risk.

- **Counter-party risk.** Banks could build detailed data services on credit or suppliers.

- **A unified dashboard.** Banks could work with individual customers to develop dashboards with views of the signals and metrics that matter most to the customer.



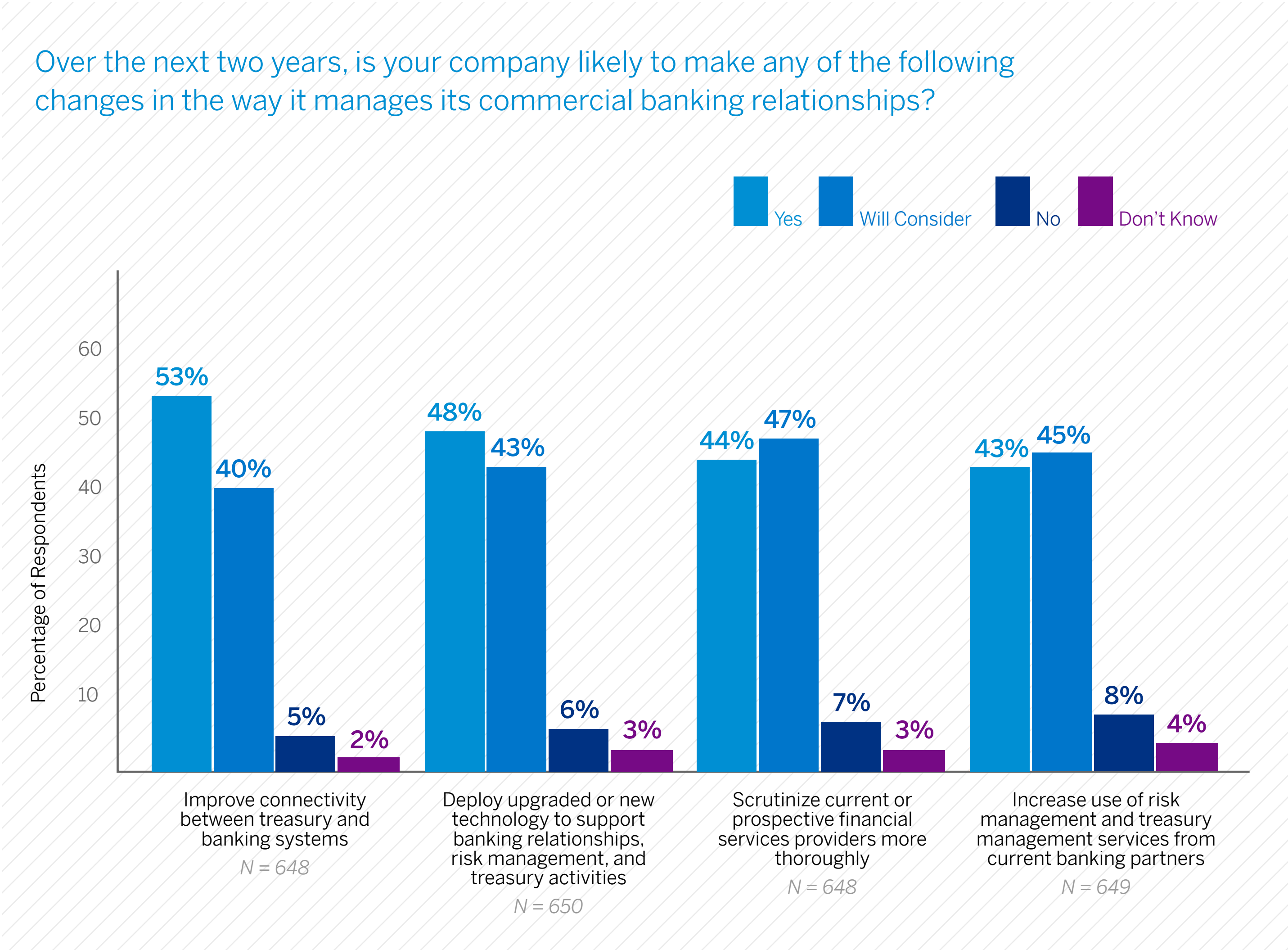


Figure 11. Commercial Banking Partners Must Prepare for Increased Demands from Corporate Customers

Note: percentages may not add up to 100 due to rounding.

Source: SAP/CFO Research Global Survey of Corporate, Finance, and Treasury Executives, *2013*

The Time Is Right

According to the survey, 93 percent of respondents say they expect to explore ways to improve their bank connectivity within the next two years, with a little more than half (53 percent) saying they definitely will pursue better connectivity. A similar number of finance executives say that they will definitely (48 percent) or potentially (43 percent) upgrade the technology their companies use to support banking relationships, risk management, and treasury activities (see Figure 11).

Businesses are willing to invest in the treasury technologies necessary to streamline workflow processes, reduce costs, and gain faster, more accurate visibility into their cash positions, according to the 2010 AFP Electronic Payments Survey. Banks have a clear opportunity to differentiate themselves by providing innovative solutions based on the more holistic view of the financial supply chain that treasury is demanding.

Banks Need a Next Big Thing

Banks were once the leading innovators in industry, developing new products and services that would rapidly become ubiquitous and benefit the larger economy, from launching the first credit card in 1946 to the creation of the ATM in 1967 to introducing online payment and billing in 1997.

Today, the Googles, the PayPals, and the mobile payment services of the world are introducing the world-changing financial advancements. Banks, burdened by regulatory challenges, are just trying to keep up.

But given financial executives' hunger for a single view across all relationships and for more advisory services, a cloud-based platform standard to all banks, while not flashy in and of itself, could be the next big thing for banks. Such a system would enable banks to better differentiate themselves by focusing on the real business of corporate banking services, and those services will prove more profitable than the low-margin but steady payment-processing business. In fact, there could come a time when banks will lead with such services and sell them to corporate treasurers that don't, and may never, conduct any transactional banking with them at all.

How a Neutral Banking Network Benefits Treasuries

In this future scenario, corporate treasury functions, freed from the tangled web of disjointed banking connections, will be able to focus on their new roles as advisers to the business, more easily aggregating information across business units, functions, technologies, geographies, and commercial banking partners to contribute to day-to-day and long-term corporate decision making.

A neutral banking network will enable corporate entities to choose the type of banking model that works best for them, whether they require 2 banking partners or 200. Corporate treasurers may seek one to two primary banks to provide the bulk of their higher-end, consultative services, but they'll be looking for flexibility from their secondary banks to help drive their primary banks' prices down. And when a banking partner fails to meet expectations, corporate treasurers will be able to easily switch service providers, increasing competitiveness in the market.

More than 70 percent of corporate treasurers want to sustain a long-term, portfolio-style relationship with their banks, according to a 2010 PricewaterhouseCoopers survey, but almost as many—60 percent—believe their banks would prefer an individually profitable transactional approach. Corporate treasury will not wait for its banking partners to catch up.

The upside for banks offering corporate customers a simpler way to connect and delivering value-added services is clear: access to more customer data, new service-related revenue, and increased customer retention. The downside of failing to act is equally unambiguous: those banks that don't get on board will be relegated to second-tier provider status or replaced altogether.

There's **more.**

TO GET A SUMMARY OF THE KEY DATA SLIDES FROM THE SURVEY, DOWNLOAD THE E-BOOK *CORPORATE TREASURY'S NEW ROLE: STRATEGIC BUSINESS ADVISOR*. PDF

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