ENTERPRISE FINANCIAL MANAGEMENT

Seven competitive advantages of the modern treasurer

Treasurers face wide and varied challenges. Regulatory developments are amplifying compliance challenges, while the threat of external fraud has escalated as cybercriminals adopt more sophisticated techniques. At the same time, treasurers continue to face perennial challenges such as managing cash effectively, optimizing working capital, and centralizing payments. In this paper, you'll learn seven ways treasurers can benefit their businesses and improve their competitive positioning.

"This is the most exciting area for the treasurer that wants to be a key strategic business partner across all functions of the corporation. You can build stronger relationships down the chain and increase your competitiveness up the chain, all while increasing profits—it is the true win-win that comes from using technology to do things smarter."

Todd Yoder
Global Treasury Head of Derivatives and Hedging Capital Management Strategy, Fluor

Transform challenges into advantages

In today's rapidly changing environment, treasurers must take advantage of the available tools, techniques, and technology to overcome their challenges and operate as efficiently as possible.

Here are seven ways treasurers can positively impact their business' bottom line:

1. Reduce risk with cloud solutions

Cloud is more than a buzzword. Treasurers who use cloud solutions can see numerous benefits, from lower implementation costs to easier access to the newest innovations in software. Typically, cloud providers will have backup data centers based in low-risk locations. These data centers will have full replication of the company's login protocols and ERP interfaces, avoiding the risk of service disruption.

Cloud solutions can also reduce treasury-related risks in a number of ways. For one thing, the risk of obsolescence is eliminated. Unlike installed software, cloud solutions do not need to be replaced every few years. For another, data is held at a secure location, reducing employee-related risks and shifting IT's role from one of hosting to one of evaluation.

In addition, cloud solutions offer the following advantages over solutions hosted on the company's premises:

- **Business continuity**—Cloud-based treasury systems can be accessed away from the office, providing invaluable business continuity benefits if the office cannot be accessed for any reason.
- **Fast implementation**—Cloud treasury systems can be deployed much faster than on-premise solutions.
- **Standardized workflows**—Workflows can be made consistent across different countries and regions.
- **Scalability**—Cloud-based systems can be rolled out to additional locations as the business expands.
- **Easy updates**—Cloud providers can update features and functionalities quickly and frequently, without the need for treasury involvement and without incurring additional costs.

Treasurers can focus on the following areas to create competitive advantage:

- Reduce risk with cloud solutions
- Achieve consistency with payment factories
- Reduce intercompany payments with multilateral netting
- Unlock free cash flow with supply chain finance
- Improve fraud prevention and detection
- Create a robust business continuity plan
- Ensure regulatory compliance

2. Achieve consistency with payment factories

Payments—and the centralization of payments across the organization—is another focal point for modern treasurers seeking a competitive advantage. Without centralization, a company's payment processes tend to be fragmented and inconsistent. Manual processes are associated with a higher risk of error and fraud, while the need to support multiple different systems can lead to higher costs and greater inefficiency.

Payment centralization, which can be achieved using structures such as payment factories, can be used effectively as a means of standardizing companies' payments processes. This can result in a number of benefits, including greater visibility over outgoing cash flows, streamlined banking relationships and improved control over the timing of payments. Risks can be reduced by adopting automated workflows and predefined approval limits. Concentrating payment flows on a single banking channel can also lead to lower transaction costs.

In order to set up a payment factory, treasury will need to work with representatives from other parts of the business, including accounting, accounts payable, and supplier management, to map out how payment workflows will operate once the new structure is in place.

3. Reduce intercompany payments with multilateral netting

Organizations can incur intercompany balances in relation to several different activities, including dividends, trade payables, cost shares, and intercompany loans. These balances will need to be settled in accordance with agreed payment terms.

Some companies may see a high volume of intercompany payments, resulting in higher bank fees, FX payment costs, and settlement risk. Processing intercompany payments is often a manual and time-consuming task, that has tax and legal implications.

4. Unlock free cash flow with supply chain finance

Treasurers can also gain a competitive advantage by using supply chain finance structures to unlock or deploy free cash flow.

Broadly speaking, supply chain finance is a means by which buyers can help their suppliers finance their receivables. These programs can bring a number of benefits for both buyers and suppliers. For one thing, suppliers can access finance at a lower cost, thereby strengthening the relationship between the buyer and supplier. Suppliers are also less exposed to liquidity risks which could lead to disruptions across the supply chain.

Different models are available, including dynamic discounting and reverse factoring programs:

- **Dynamic discounting**—Dynamic discounting programs allow early payment discounts to be managed in a more flexible way. Sliding scale discounts enable buyers to choose payment dates in accordance with cash availability, while sellers can choose which invoices to offer for discount.
- **Reverse factoring**—Buyers can enable their suppliers to access early payment for invoices via the buyer's bank. Buyers can thereby improve liquidity for their suppliers—even if payment terms are extended.

Why netting?

In order to address challenges related to intercompany payments, companies that undertake large volumes of intercompany payments can use multilateral netting solutions to reduce the number of physical payments which need to be made. A netting system consolidates intercompany payments, with each participant making or receiving a net payment each month instead of settling each payment individually. This results in reducing bank fees while eliminating manual tasks and settlement risk.

Netting systems can provide a standardized workflow process which can be used consistently around the globe, alongside other functionalities such as on-demand statements and historic intercompany reporting. They can also improve internal and external audit compliance, as well as consolidating and hedging FX exposures.

5. Improve fraud prevention and detection

The risk that companies will fall victim to fraud is considerable. The **2018 AFP Payments Fraud and Control Survey** found that fraud rose from 74% to 78% in 2017. While check fraud remains a constant threat, scams and fraud are becoming more sophisticated and difficult to detect. As fraudsters adopt increasingly sophisticated techniques, it is more important than ever for corporate treasurers to understand different types of fraud—and take appropriate measures to safeguard their companies.

Specific threats include business email compromise (BEC) scams, whereby criminals send an email to a company's employee purporting to be from the CEO or CFO requesting that a high value payment is made into a specific account. Such scams can be very convincing, with considerable efforts made to imitate the CEO or CFO's writing style. The targeted employee will typically be told that the payment is urgent and confidential.

Many companies have fallen victim to this type of scam, but by putting in place suitable security measures, treasurers can reduce the risk of fraudulent payments. These measures should include suitable segregation of duties, with different employees requesting, processing, and releasing payments. Treasurers should also implement payment authorization limits for individual employees, as well as using bank controls such as positive pay and ACH debit block. Just as importantly, employees should be educated about the relevant risks and should fully understand and adhere to the controls in place.

6. Create a robust business continuity plan

Business continuity can be disrupted for various reasons, from employee sick leave to severe weather events. Having measures in place to minimize the impact of any disruption is essential. Treasurers need to make sure that critical daily tasks, such as cash positioning, FX trading, and wire transfers, continue to take place without interruption. Treasurers should therefore have suitable measures in place and document them with a robust business continuity plan.

In particular, treasurers should consider the following:

- **Employee cross training**—Each team member should have a basic knowledge of how to execute essential daily tasks. This can be facilitated by incorporating cross training into employees' KPIs.
- **Procedure documentation**—Treasurers should document the steps to complete critical daily tasks, complete with screenshots and detailed instructions. By including these instructions in a business continuity plan, treasurers can enhance cross training and provide concrete reference material.
- **Working remotely**—On occasion, employees may be unable to get into the office. Remote working procedures should stipulate whether employees are permitted to conduct company business using personal computers, or whether employees can keep designated business continuity laptops at home.

The plan should be tested regularly, with employees working remotely to complete all of the critical tasks at least once a quarter or, ideally, once a month. A hard copy of the plan and any subsequent updates should be distributed upon completion to be kept at home for reference.

7. Ensure regulatory compliance

Regulatory compliance might not sound like a competitive advantage if compliance is compulsory—but some companies address this area more successfully than others. By tackling compliance proactively and efficiently, and by using suitable technology, treasurers can minimize the associated costs and may even be able to leverage regulatory change to benefit the business.

Regulation has been a concern for corporate treasurers, but in the last few years the high volume of regulatory changes has made this topic more challenging than ever. With new rules affecting areas as diverse as tax, accounting, know your customer (KYC) and anti-money laundering (AML), and payments, corporate treasurers face considerable challenges in ensuring they remain compliant.

At the same time, treasurers have also had to understand how their banks are affected by regulations such as Basel III, as such developments can have a knock-on effect on the products and pricing available to corporate customers.

In this climate, treasurers need to take the necessary steps to understand how different regulatory changes affect their businesses. They should ensure that they have the necessary treasury resources in place to achieve compliance, and that their treasury technology meets their compliance needs as well as supporting strategic goals. Typically, treasurers should seek advice from experts including banks, technology providers, and consultants.

Sharpen your competitive edge

The current climate continues to present treasurers with considerable challenges, from cybercrime and business continuity to payments and compliance. These challenges are set to continue—but as technology develops further, treasurers can access increasingly sophisticated tools to reduce risk, free up cash flow, increase standardization, and boost efficiency across their operations. By using modern tools, and by putting suitable structures and processes in place, treasurers are able not only to overcome the obstacles they face, but also to gain a competitive advantage.

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