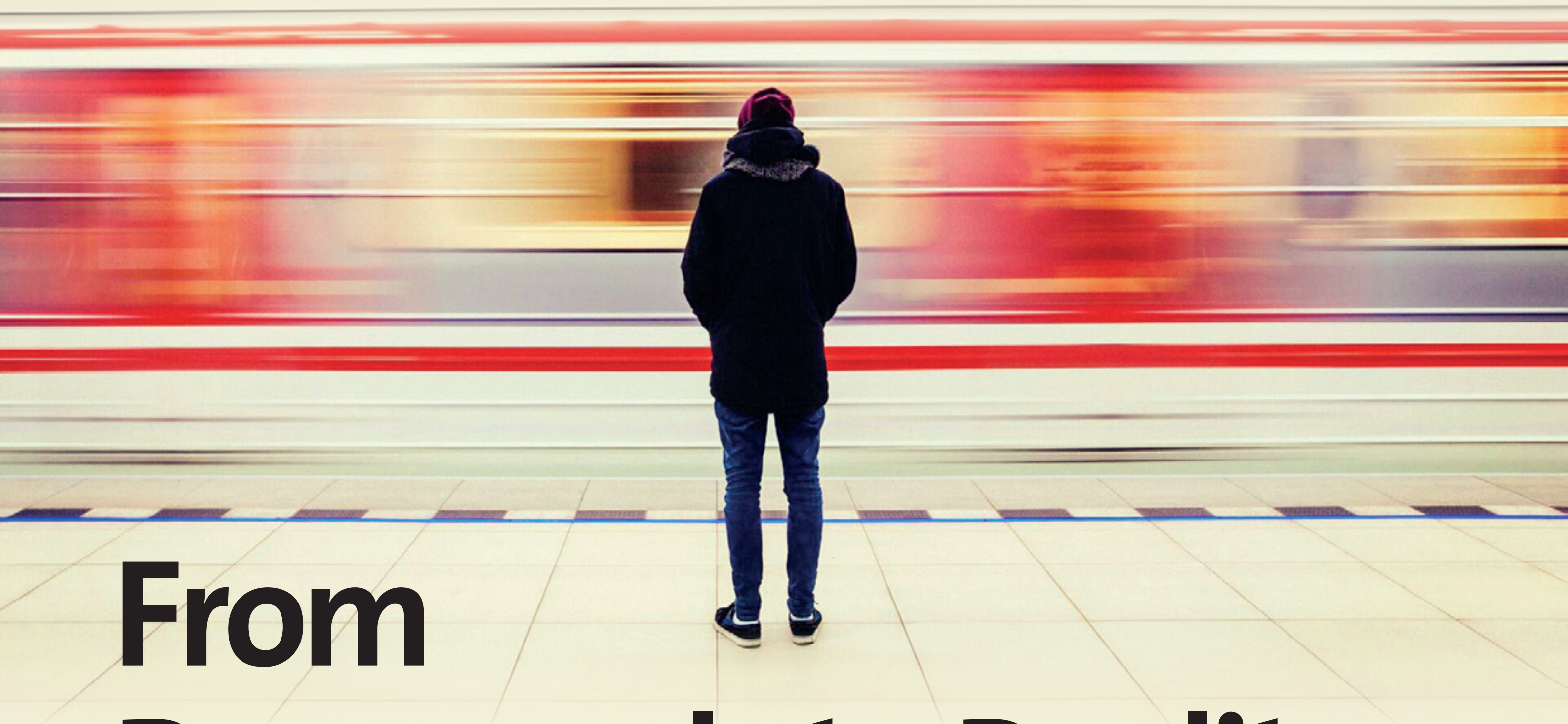


From Buzzwords to Reality

The Road to a Centralised and Digitalised Treasury

The role of treasury is continuously changing. Treasurers are expected to be business partners within companies and to deliver data that can be used for strategic decision-making. But they also face pressure to work more efficiently and to up their performance with fewer resources available. For many treasurers these trends are a clear incentive to (further) centralise treasury operations. But where should they start?

By **Simon Kaptijn**, Director Cash Advisory & Structuring, ING Wholesale Banking

Much has been written about this topic. Type 'treasury centralisation' into your browser and in an instant millions of hits pop up. But chances are that you will be overwhelmed by all the buzzwords, like machine learning (ML), robotic process automation (RPA), APIs, payments-on-behalf-of (POPBO), and in-house banking (IHB). With all of them promising you the holy grail of centralisation benefits.

So, how should you navigate through the jargon-filled maze and define tangible steps to become more efficient? To start off with, let's take a look at the main benefits of treasury centralisation:

- Increased control and visibility over cash, setting up one centralised access and view over (global) cash positions.
- Access to financing and liquidity, enabling corporates to turn inwards to drive growth and value, with strong focus on capital structure (funds can often be more effectively obtained at group level).
- Operational efficiency and risk mitigation, with standardised business processes run from a central location.
- Integrated FX , enabling centrally managed FX providing benefits including offsetting foreign currency positions.

The above is just a small selection of drivers and benefits. Of course, there can be different drivers depending on industry, treasury maturity, geographical spread, and many other factors.

The first step in this journey is to assess the current level of centralisation and the desired level. Using a simplified model defining five treasury maturity phases, treasurers can assess their current state. The model is based on the premise that the higher the level of treasury digitalisation, the greater the level of standardisation, control and visibility. Each phase identifies several treasury tools specific to that particular phase.

Once the current state has been established the desired level of centralisation needs to be defined. Our experience shows that centralisation is an organic process, with tools from different phases existing side by side.

An important aspect of developing a centralisation plan is defining a realistic horizon and building a business case. A goal to move from decentralised to a digitalised treasury will most likely take more than two to three years to be achieved. To keep stakeholders engaged and budgets within reasonable limits, the desired level needs to be realistic and in line with the existing treasury strategy.

Back to the buzzwords. Of course, there is nothing wrong with the solutions behind them. But they often resolve challenges that are not relevant to the desired level of centralisation. Everybody is talking about APIs and becoming API ready. But should this be your top priority?

Selecting key pain points from your treasury responsibilities will focus attention on which buzzwords to engage with. To illustrate, let's take the example of a centralised treasury that manages multiple cross-border cash pools in different currencies. And let's say its strategy is to set up an IHB. However, their main pain point is the volume of manual work resulting from the number of different cash pools they operate and the foreign currency hedges to optimise cash utilisation. Instead of focusing on the establishment of an IHB, which can be a complicated process that includes establishing a finance company and intercompany loan netting structures, they could start with establishing a notional cash pool or a global overlay.

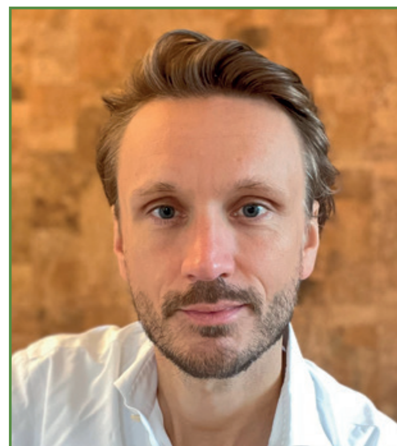
Each of the centralisation phases can be linked to common tasks, pain points and potential solutions, which will accelerate the centralisation journey and bring tangible benefits to the treasury team.

We have had many discussions with our clients about the long and complicated centralisation process. There is a high chance the process will be delayed by M&A activity, leadership changes, supply chain hiccups, geopolitical tensions or other unforeseen events. There are many learnings that can be drawn from the experiences of companies that have also embarked on this journey.

- Management focus and a C-level mandate has been referred to as one of the must-haves for success, especially when there are many cultural differences within an organisation. Often these go hand in hand with a resistance to change. Clear management involvement and the project team's mandate will help to overcome these challenges.
- Essential for success is a clear roadmap, including milestone planning, that is signed off by all stakeholders involved (both internal and external). It is advised to plan your resources ahead and make sure departments such as legal, IT and treasury are aligned.

So, the next time you hit enter when searching treasury centralisation, there is no longer any need to be overwhelmed by all the buzzwords. You will know how to navigate them and pick what is right for your centralisation journey.

Our research indicates that only very few companies have reached the real-time or digital treasury phase (less than 1.5% of 778 companies). The vast majority, 60%, operates a centralised treasury and 18% a specialised one. That leaves 20.5% decentralised, which most likely is a mix of companies that deal well with decentralisation and companies that are moving to the next phase. 55% intend to advance a level.



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