ION Treasury:

Creating Real-World Opportunities for a Digital Future

By **Tom Alford**, Deputy Editor

Treasurers have much to gain from a co-ordinated programme of digitalisation. With some forethought and planning, the benefits of advanced technologies are there for the taking, says Michael Kolman, Chief Product Officer, ION Treasury.

The real advantage of digitalisation comes when processes are executed within ecosystems of interconnected, interrelated applications. As the starting point for a future vision of treasury, the concept of digitalisation encompasses at least four key improvement areas, notes Michael Kolman, Chief Product Officer, ION Treasury.

A vital first link in the chain is workflow management technology, such as a treasury management system (TMS), which acts as the enabler of effective process control and automation. The current pandemic-hit environment has shone a light on the benefits derived from the deployment of digital workflows. And the capabilities of a TMS to handle the demands of remote-working are magnified against the backdrop of day-to-day struggles in operations as experienced by treasuries stuck in a paper-based world.

Indeed, as other aspects of business evolve along an accelerating digital timeline, the gap between technologically-enabled treasuries and the rest is increasingly apparent. For many treasurers in the latter camp, the experience of a non-digital workflow can be painful. This is all-too evident in managing interactions with banks, with paper-based processes falling at the first hurdle of lockdown but digital signing solutions quickly being co-opted into action for those prepared.

As a second fundamental of digitalisation, enhanced data delivery brings many benefits. This, says Kolman, is epitomised in the way real-time data access, analytics, dashboards and reporting tools can hand treasurers far greater power and confidence when making decisions.

The third key aspect is treasury connectivity with key partners such as banks, online trading and investment portals, and market data providers. "We try to enable straight-through processing for customers in our treasury systems, and one area that I think has been amongst the most advanced in recent years has been FX trading," notes Kolman.

From the TMS, exposures can be monitored, and then managed through an online portal, with trades being confirmed and booked without the need for intervention post-entry, he explains. This level of connectivity is not new but, he adds, "it serves to remind the industry of the possibilities for further transformation".

And fourthly, for treasurers inspired by the prospects of digitalisation, the reality of it begins "with a vision", says Kolman. Devising a five-year plan for unleashing the opportunities should, he feels, move treasury beyond its typically reactive state, towards one of proactivity.

Whilst for example reacting to cash positions and liquidity status will always be necessary, digitalisation opens up the option for treasury to pre-empt certain actions. This can create value for a host of internal and even external stakeholders, not least the company's customers and suppliers. As Kolman notes, "a big part of digitalisation is the ability to transform the business model".

For this to happen, that vision of digitalisation should not be just about a single function or department within the organisation, but about all. The problem here is that where companies have adopted multiple-point solutions to solve multiple function-specific problems, the combined technology stack across the organisation can require some complicated mapping to overcome inefficient data flow between those systems.

For Kolman, it is therefore essential for every practical movement towards that digital vision to begin by planning an enabling 'groundwork' of standard data models and master data management. From here, follow-on

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MICHAEL KOLMAN

Chief Product Officer, ION Treasury

Michael Kolman is responsible for driving product strategy and direction across the portfolio of seven treasury management systems and value-added treasury solutions.

He joined ION in 2013 as Head of Business Consulting bringing with him 15 years' experience in corporate finance, first in the energy industry and later with General Motors. During his last two years at GM, Kolman served as Associate Director of Treasury Operations where he was instrumental in guiding GM's treasury transformation. He holds an MBA from MIT Sloan School of Management in Cambridge, MA, and an undergraduate degree in Finance and Economics from University of Florida.

detailed organisation-wide analysis and documentation of current processes and pain-points will reveal the most appropriate solutions.

Delivering on expectations

An effective digitalisation programme is about delivering scalability, says Kolman. It offers a general shift away from the practical demands of data gathering and processing, and movement towards the empowerment of analysis and execution. It's a journey, he says, that provides an ascending scale of treasury and organisational benefits, from the platform level, to the tactical, to the financial, and upwards to the strategic.

The strategic level, he explains, enhances the enterprise-wide view of data and the integration of third-party applications. The financial is about reducing costs by discovering synergies from an IT perspective to consolidate systems, driving greater efficiencies, and leveraging technology to increase fraud prevention. Tactically, one of the main outcomes is improved cash visibility, and enabling straight-through transaction processing. At the platform level, benefits are typically derived from system scalability and flexibility.

Kolman believes cloud-based delivery is one of the most critical high-level elements of the transformation journey, but at the application level he considers APIs to be truly foundational to digitalisation. "We live in a world where, given the tools that we have, we make the best of them. But if we want to do better, we need something new in our toolbox. APIs are an essential tool to add to achieve more."

By enabling two systems to communicate, APIs break down the siloes that might otherwise exist between various point solutions. Of notable interest for treasurers, under the auspices of European PSD2 and open banking regulations, bank-published APIs are beginning to facilitate automated real-time data communications for corporate customers.

SWIFT message flows between corporates and banks are also benefitting. As digitalisation progresses, the shift from old and somewhat limited MTx messages to the ISO 20022 XML-based format is enabling far richer data transfer. SWIFT is now leveraging this vastly improved data as part of its easy API connection to gpi services such as payment tracking, pre-validation and case resolution. Perhaps even more exciting is the way in which vastly improved data quality and flow also opens up possibilities for the adoption by treasury of cutting edge tools such as machine learning (ML).

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Advanced tech

"At ION we have been studying the potential application of ML in treasury for a number of years," says Kolman. In partnership with a European university, for example, he describes a post-doctorate level research programme analysing optimal use cases. The results to date include working solutions for ION customers in cash forecasting, fraud detection, cash-tagging (to assist processes such as automated reconciliation), and predictive analytics (in areas such as hedging and investments).

ML-assisted cash forecasting, was indicated through the research as a top priority. ION had its first go live, with ML cash forecasting in 2019. "We're still early on in our journey but already we're seeing 3000-times faster forecasting," Kolman reports. With traditional forecasting schedules being updated only periodically, and with multiple sources being required to submit reports for eventual aggregation, he believes that 3000-times faster is likely even to be an "understatement" of the time and effort saved.

With historical data being used to feed forecasting models, the most accurate outcomes are derived from neural networks. A neural network is designed to mimic human behaviour. Based on a series of algorithms that detect underlying relationships in vast sets of data, it can remove human bias from the forecasting process. As such, when using this system, forecast accuracy has improved by around 10% over traditional methods.

"We're not at the point yet where we'd recommend companies abandon their current processes, but we strongly encourage the use of ML-based forecasting as a secondary source," says Kolman. Indeed, he recognises that human intervention will still be required to manage changes within the business that ML's historical data would not recognise. He also accepts the difficulty some may find in pivoting from well-understood human processes, to more arcane 'black-box' processing. However, he continues, "trust and confidence in ML will build over time".

Kolman maintains the same enthusiasm for ION's ML-based fraud detection services, which are set to roll-out in 2021. Companies have traditionally connected to their banks via a portal, a service bureau or host-to-host. Processes such as fraud detection that work on the recognition of anomalies or sanction screening methods comparing counterparties to sanction lists, have historically been viewed as the banks' responsibility, he says. "We're now witnessing a shift towards the view, and many treasurers agree, that this responsibility should be shared."

The obligation to be watchful not only falls to treasury but should extend across the corporation to colleagues in areas such as AP/AR, compliance and even sales. Only this way can the business ensure it is neither exposed to criminal intent nor punitive sanctions for

regulatory violations. To ease the pressure, ION will soon offer customers ML-based detection solutions.

Strong case

The role of the treasurer first and foremost is to protect the financial assets of the business. This mission can conflict with adoption of cutting edge technology – that some may feel is unproven. Kolman observes that treasurers are very curious about new technology but cautious to adopt quickly. ION partners with its clients to ensure thorough due diligence and testing on all new innovation. With the ION customer-base yielding many strong relationships, the vendor is not short of willing and vocal participants in its discovery processes.

But moving treasury forward technologically requires budget. Building a strong business case can be assisted by a number of quantitative and qualitative factors that can be used to calculate return on investment. ION's own ROI calculator, freely available to corporations, can help business-case development, says Kolman. The tool can be used to quantify the benefits that new technology can deliver around increased efficiency, reduced operational risk (by the rationalisation of spreadsheets, for example), and de-duplication of functionality.

The calculator can reveal layers of improvement in working capital management, where in-house banking functionality, for instance, not only reduces bank fees but also unveils the advantages of cash concentration by maximising use of working capital and making cash fungible across the entire organisation. This alone, states Kolman, "is an opportunity for some easy cost-savings and the potential to become a driver of value for the company".

But there are some similarly "low-hanging fruit" from a qualitative standpoint, he adds. A common treasury challenge is that of managing bank portals where multiple banks, accounts, and users create complexity, especially when it comes to supervising signatories and security. An ION TMS, he argues, offers the ability to retrieve bank statements and distribute them across the business, reducing the need for multiple-user access rights, and the associated costs and risks.

Another TMS benefit put forward by Kolman is derived from its capacity to increase forecast accuracy. When forecasts are more accurate, treasury's cash buffer can be reduced. Cash can be more productively employed, perhaps to repay debt or earn yield from investment. "Many of these savings come in small pockets," he notes. "Our ROI calculator just helps companies realise and quantify them."

Thinking ahead

In meeting the current and future needs of treasurers, the 'one-size-fits-all' approach is not how ION operates, says Kolman. The vendor has seven different TMS solutions in its line-up. This gives it a broad view of how treasury complexity varies. "When we think about the future of digitalisation, not only are we considering how technology is going to impact the largest MNCs, but also the smaller and maybe simpler companies, and all points in between."

It's a rare kind of perspective that he says allows him "to dream and think about the future state and how technology can really help treasurers to achieve more". Of course, realising the potential of cutting edge tools like ML and APIs, being attentive to cybersecurity whilst facilitating the shift towards shared responsibility for sanctions screening, demands an innovative approach. This cannot be achieved in isolation, states Kolman.

"It is important for treasurers to maintain a close relationship with their technology partners. By allowing us to observe their processes, it not only exposes the pain-points that we look to solve, but it also helps us to identify how our technologies can help treasurers to execute on their vision."

In taking on board the challenges and opportunities of the treasurer of tomorrow, whilst overcoming the barriers that exist today, ION's solutions are enabling treasurers to concentrate on strategic, value-adding activities. It is, suggests Kolman, a push for treasurers to become "more opportunistic" in their use of working capital and in optimising their capital structures. "And when we think about that interconnected ecosystem, where we can get real-time updates on exposures, we're really starting to unleash the possibilities." ■