

Real Time Treasury

How to achieve Real-Time Treasury?

Embarking on a journey to transform a Treasury function to “real-time” can seem like a daunting task. This whitepaper seeks to provide some thoughts and considerations on how to approach this paradigm shift. This transformation journey can vary significantly from one Treasury to the other, and so there is not a “one-size-fits-all” solution. It is, therefore, important to establish a baseline and a starting point, over-which real-time transformation will take place. This transformation framework will be unique to an organisation, but it can be broken down into common themes that a Treasurer can find useful to start the journey. These common themes will be explored in this whitepaper.

1. Senior Stakeholder buy-in

Like any major change programme, senior stakeholder buy-in and support is essential to obtain the necessary funding and resources to embark on a real-time transformation journey. This usually means creating a business case which highlights both the financial and non-financial impacts as well as opportunities missed from running a batch based or a non-real-time treasury. It is therefore key to have a good understanding of what are the existing pain points in treasury systems and processes and how real-time can resolve these.

A very simple example could be:

- ◆ **Issue** - All funding and defunding of my subsidiaries takes place at the end of each day. Even though I forecast the working capital needs of my subsidiaries to the best of my abilities, surplus cash is always sitting on the treasury accounts and is not invested. There is a missed opportunity for earning higher yield on this cash
- ◆ **Impact** - Across X number of subsidiary, and Y magnitude balances, estimated opportunity lost from earning higher yield = £xx/annum
- ◆ **Solution** - Implement real-time systems and processes to allow real-time funding and defunding of subsidiary accounts, as well as real-time investment and divestment into higher yielding instruments. Intended result is that subsidiaries would be funded, and all surplus cash would be invested

This is a simplified example, and there can be many more as more processes are looked at and analysed. At this point in the process, it is recommended that sufficient detail is gathered to build the business case, and that lower-level exploration is deferred to a later stage once approval and budget is allocated to the programme.

To gather a reasonable number of scenarios it is important to engage stakeholders from relevant functions in the organisation, for example, Treasury, Finance, Procurement, Sales, Manufacturing and Global Service Centres. It is recommended to form a cross functional working group that will become the backbone of the transformation programme as it progresses from one phase to the next.

2. How Embedded is the Concept of Real Time in the Organisation (Establishing a Baseline?)

Before embarking on this transformation journey, it is good to assess if there are any initiatives/process/groups that have implemented or are exploring the concept of real time Treasury. Not only, do these present obvious synergies across the organisation, but also will help understand how familiar key stakeholders are with this relatively new concept. It is recommended that the idea of real-time Treasury is embedded through internal socialisation and training. Additionally, the knowledge of real time and corresponding benefits to Treasury and wider functions should be a skill set the organisation looks to develop within its existing employees and looks for when hiring new ones. Building a culture that looks at processes and systems through a real-time lens can be a very powerful factor on how to execute on the necessary transformative actions for the Treasury department. An enterprise-wide real time framework should be created/expanded to include Treasury.

3. Enabling Real Time Treasury – Data, Insights, Action

This is where the bulk of the effort and spend is likely to be. At this point, a very detailed assessment is needed to ascertain the starting point and the sequence in which processes and systems can be changed. It is recommended that the following questions are asked:

- ◆ What processes currently sit within Treasury department?
- ◆ Are these processes automated?
- ◆ How can technology transform these processes and who in the Treasury “ecosystem” will provide those solutions?
- ◆ What additional controls/monitoring is needed in a real time construct?

The first two bullets are clearly concerned with taking inventory of the processes and determining how automated they are. If the process is automated, it is easier to switch this into a real-time process, so this could be considered low-hanging fruit. For example, cash flow forecasting is typically carried out by the Treasury. If the forecast is being carried out manually on spreadsheets, this can never be transformed into a real-time forecast (assuming a non-real-time forecast has been identified a pain point). So, the priority here is to automate the forecast. Following on from that, the forecasting process can then be considered for real-time.

This leads to the third point around assessing the technology that can enable this. As a rule of thumb, most treasury processes can be automated via a TMS, or an ERP that provides treasury modules. Making these processes real time will therefore require changes in the TMS and the systems and process that sit in the eco system of the TMS.

Continuing with the example of cash flow forecasting, let us consider the inputs into the forecast. These are typically items such as customer invoices, supplier invoices, scheduled payment runs, intercompany transfers, scheduled sweeps, payroll data and the like. These can typically sit on an ERP, and therefore can be pushed/pulled using APIs between the ERP and TMS on a real time basis to update the forecast instantly. This means the cash forecast will be based on real-time data and therefore would be at the most accurate state.

Additionally, AI tools can be used in conjunction with this data to refine the forecast with past trends instantaneously, as well as provide recommended actions to ensure working capital requirements are met, and that surplus cash is utilised to its fullest potential. Again, this can bring about huge strides in making the forecast incredibly accurate as well as giving the treasury an opportunity to react earlier to changing circumstances.

Utilising technology can also allow real time flow of actuals data into the forecast. For example, Banks offer APIs that provide real time data on account statements. With the adoption of ISO20022, the transaction data is richer and therefore more powerful. Once consumed into the forecast, this can provide real time variance analysis which can be acted upon instantly. This can lead to new ways of monitoring and controlling cash, which relates to the final point mentioned above. In doing so, if the Treasury needs to make a payment, for example, it can utilise real time connectivity via APIs to Bank payment systems to initiate real time payments. One by one, each process can be analysed in this way and transformed. This can be an extensive piece of work as there are many processes owned by treasury, and therefore, prioritisation and taking advantage of low hanging fruit is key.

In conclusion, how to get to a real-time construct is a process that requires buy-in from the seniors, the creation of an enterprise-wide framework for adopting real time, nurturing a culture that believes in this transformation and utilising the technology enablers in the market. This can lead to great financial and non-financial treasury efficiencies.

Example of how real time concepts can be introduced into cash flow forecasting

