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Dynamic Treasury Management

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Treasury management techniques should include centres of excellence and smooth service sharing in order to achieve best practice in funding, investment and liquidity management activities.

Treasury management is more than just ordinary management: treasury operations occupy a crucial place in a firm's activities. The need for treasury management started with maximising return, and then came cost-efficiency. Treasury management went on to include customer satisfaction and value-added services.

Managing a treasury relates to cash management, trading, payment, accounting and risk management in foreign exchange, money, equity or derivatives markets. Cash management tracks the deposits, disbursements, collections and fund transfers, or, in other words, cash inflows, outflows, receivables and payables. Trading can be done in futures, options and other derivatives, as well as currencies or government/corporate instruments (bills, bonds, etc). Payment methods help predict cash flows, as well as take into account domestic and cross-border settlement, whether gross or net.

Accounting helps in adhering to auditing and reporting rules. Risk management helps in appropriate planning, as well as managing multi-subsidiary, multi-entity and multi-portfolio risk to mitigate the fear of facing unexpected results. Risk management can be achieved through financial engineering and quantitative modelling techniques to manage the exposures and maximise returns.

Markets are prone to movements in exchange rates and interest rates that, in turn, affect cash forecasting/pooling/exposures, bank account reconciliations, FX and interest rate hedging, as well as funding. Market developments, such as the single euro payments area (SEPA), demand a flawless functioning of treasury to reap the benefits of economies of scale and geographic spread of business. SEPA is a pan-European initiative to facilitate cross-border payments more efficiently and thus create a single market for euro payments. It is expected that by 2010, SEPA will become a dominant form of electronic payment, and by 2011, SEPA will replace all local national payments in the eurozone.

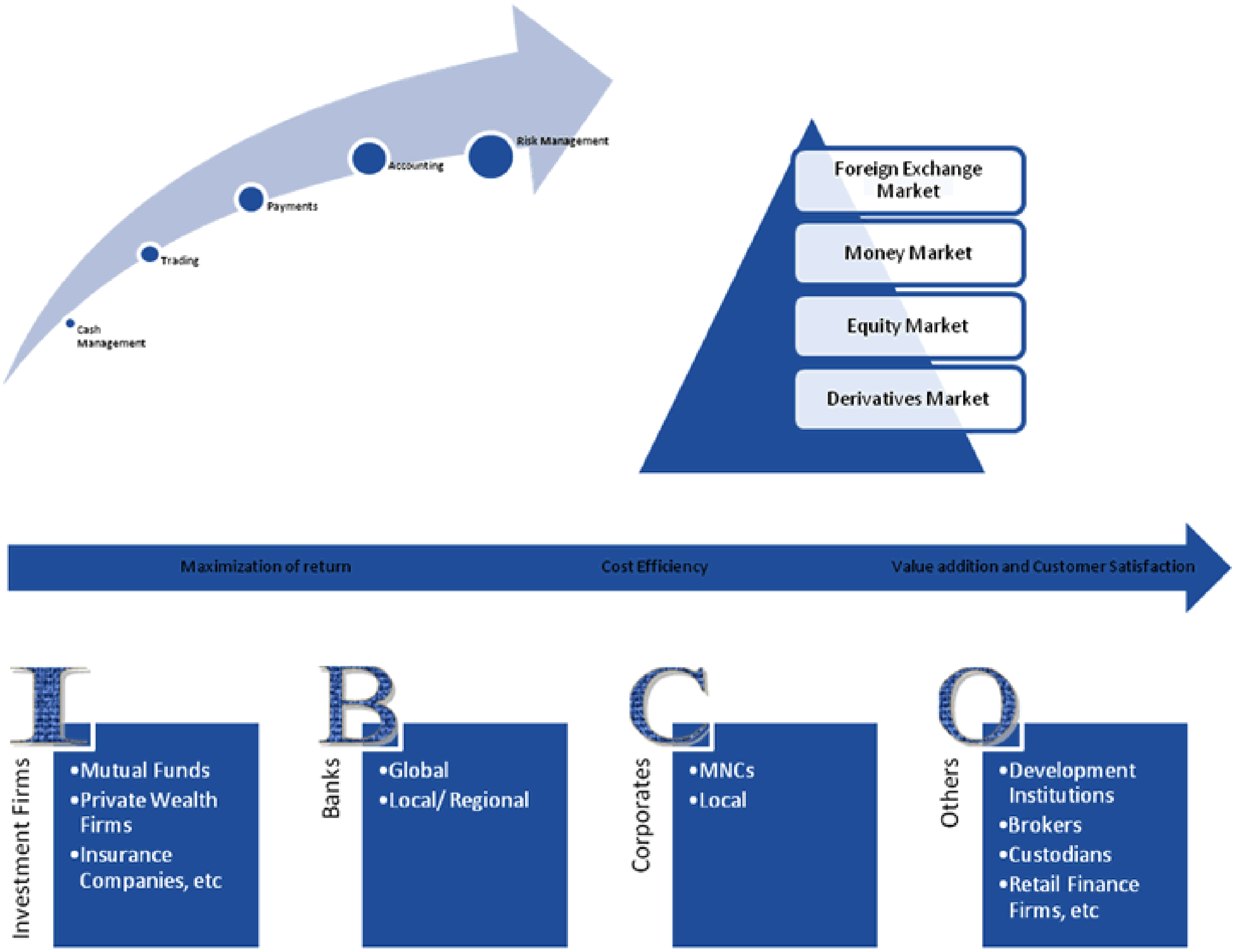

Figure 1: Treasury Management Workflow

Source: BISIL

How Treasury Can Evolve

There needs to be dynamic and competitive transformation of treasury management. Instead of constantly attempting new business models for treasury according to the market changes, an organisation can implement the following practices on a broader level to sustain buoyancy in global liquidity and risk - two pillars in treasury management.

First, the treasury department must carve out centres of excellence (CoEs) to retain best practices in the changing environment. CoEs will create successful handling of credit control functions, working capital requirements, cash management, and accounting, as well as meeting compliance, legal, tax, transfer pricing, reporting and regulatory requirements. Each centre can benefit from independent research. CoEs will also facilitate communications and understanding of strategic possibilities.

Second, treasury must facilitate smooth service sharing, for example by creating knowledge repositories and shared service centres. Knowledge and service sharing will help in appropriately understanding the implications of economic data on the various financial markets; ensuring communication of treasury information management and support from functions in business operations, finance, tax, accounts, internal audit; and identifying cross-sell opportunities and preparation of strategy plans. Exponentially increasing trading volumes need scalability in treasury operations. Service centres promote scalability to manage global financial exposures.

Globalisation of economies, deployment of funds across countries and growing opportunities for raising money outside one's country result in increased overseas capital investment projects. The continuous regulatory and governance changes, decreasing margins and increasing competition necessitates managing the treasury profit centre more efficiently.

CoEs and service centres can collaborate to analyse the intricacies of the financial markets, such as the bulging derivatives market bracket where the margins are still high. Overall improvement in organisational control, capital management through strategic budgeting, investment appraisals, interest rate and currency exposures control, funding sources, management of assets and liabilities, and timely valuations can be achieved in a dynamic manner. Thought leadership in these areas will, in turn, drive the key strategies, policies and operations to attract and retain investor capital and increase shareholder wealth.

These measures can help effective treasury management in terms of well-informed decision making and achieving excellence in funding, investment and liquidity management activities.