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AFP EXECUTIVE GUIDE

A Treasurer's Guide to Centralization: Cost Control, Operational Efficiency and Digitalization

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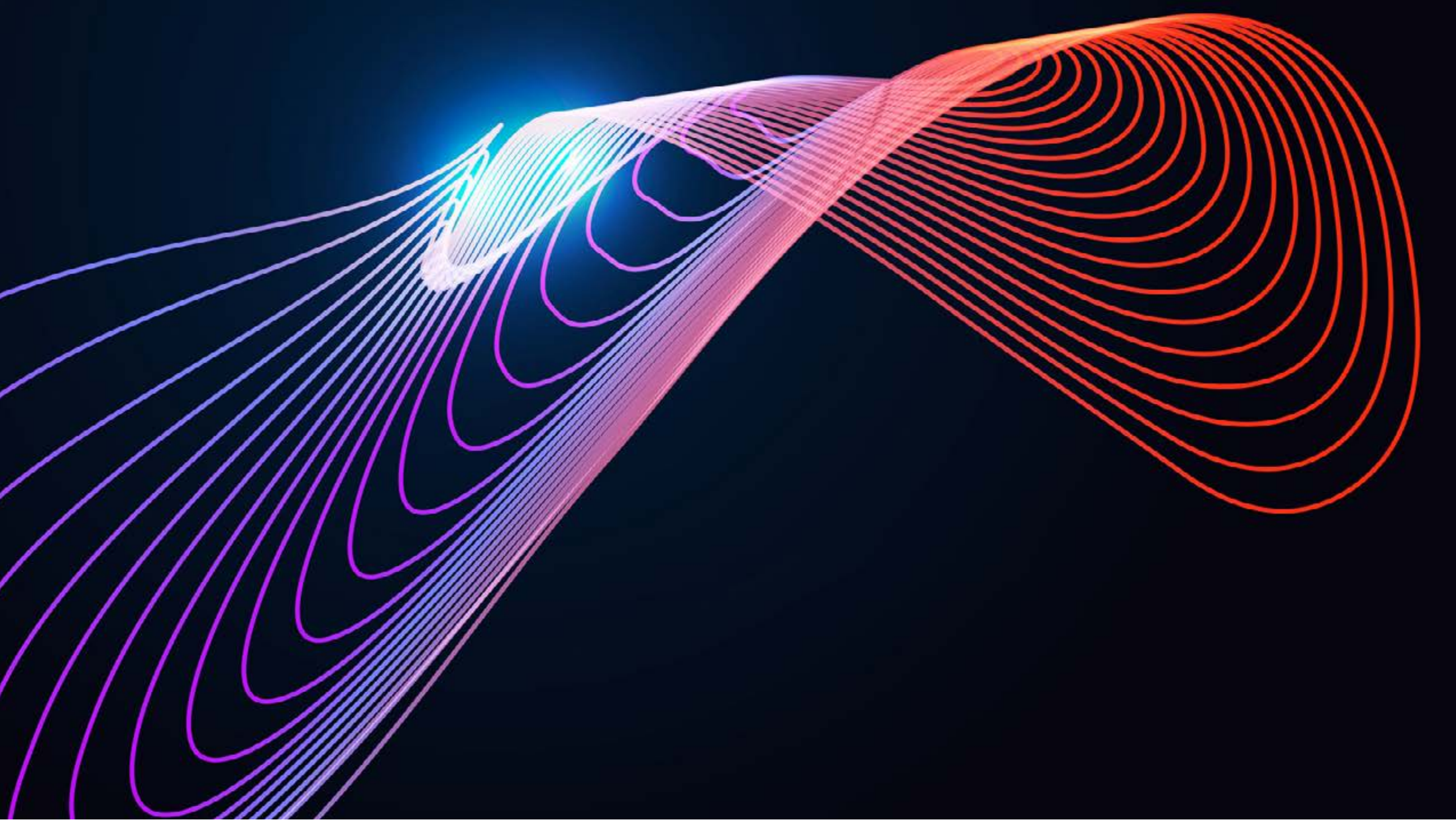

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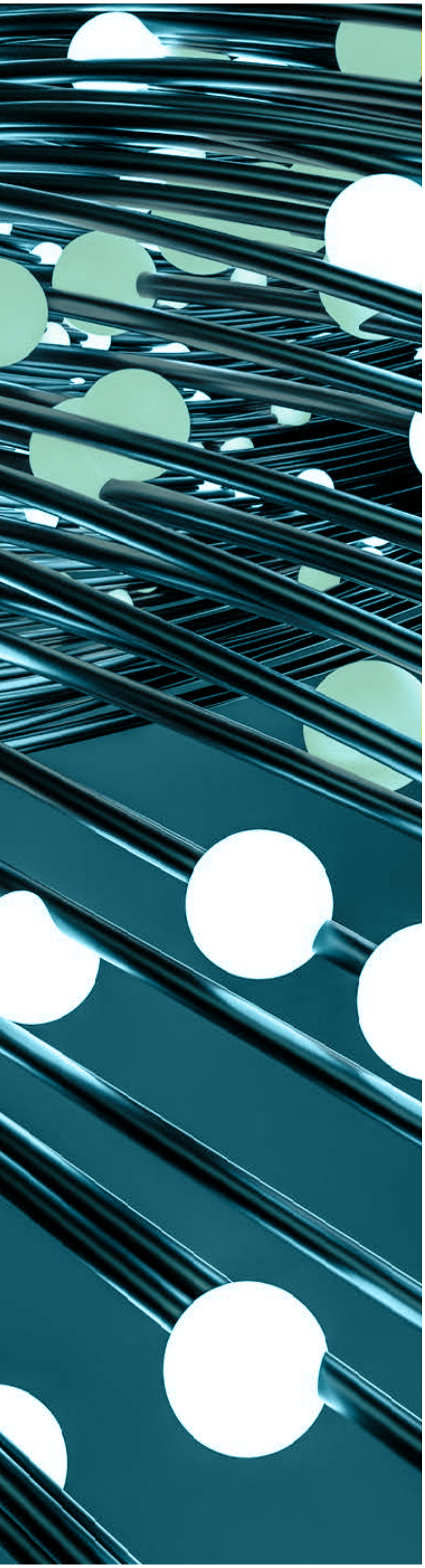


For the past two years, corporate treasurers have been consumed with being the custodians of cash. Now there is a new ask by management – to ensure resilience to future disruption. This together with the perennial challenge of how best to find efficiency is how treasury will be judged in the coming years.

If cost optimisation and operational efficiency (for a resilient future) is the ask, what is the answer?

In partnership with the Association of Financial Professionals, Standard Chartered is pleased to present A Treasurer's Guide to Centralization: Cost Control, Operational Efficiency and Digitalization, which we believe provides answers through the expertise, insights, and framework shared.

This guide is rich with practical approaches, considerations and advice – which can help treasury to add value to the business. It features nine case studies spanning cash pool performance to automation and rationalization, digitizing FX management to supplier financing, co-creation of an e-commerce-supporting solution to use of data to incentivize distributors, and last, a framework for selecting projects. The cases provide real examples of peer challenges, insights, and benefits achieved.

Through our expertise, advisory and solutions, we at Standard Chartered are supporting treasurers today and in readying their businesses for tomorrow. This guide will be accompanied by a webinar and three podcasts. Look out for the details of these in the weeks to come.

With regards,

Philip Panaino
Global Head of Cash
Standard Chartered

Ricky Kaura
Head of Transaction Banking Asia, Africa and the Middle East
Standard Chartered

INTRODUCTION

As the global economy emerges from the pandemic, companies are aiming to rebuild and develop their businesses to take advantage of opportunities as they occur. Treasurers are tasked with maximizing efficiency within their departments in order to improve working capital and liquidity management to fund business growth. As they apply the lessons of the past two years, treasurers take a much more critical view of how they can manage costs, improve process efficiency without sacrificing safety or control, and eliminate the use of antiquated or end-of-life technology.

Using illustrative case studies, this guide provides practical steps treasury can take in three areas:

1. The tactical improvements treasury can make to control costs.
2. The strategic decisions treasury can make to improve operational efficiency.
3. The frameworks treasury can employ to determine whether and when to implement a change.

UNDERSTANDING THE CHANGING BUSINESS DRIVERS

Of all the impacts of the coronavirus pandemic, for treasury and finance, two in particular stand out:

- To continue operating during periods of lockdown or curfew, most organizations had to facilitate some form of remote working for their finance and treasury teams.
- In the initial phase of the pandemic, most companies tightened their focus on cash, as supply chain uncertainties and consumer demand put pressure on existing forecasts.

Most organizations have been able to digitalize some processes, and many of those have been translated from emergency, short-term solutions to established practices. The focus on cash forecasting has also remained, although the objectives have slightly changed. Initially, the objective was to ensure the company had sufficient cash to last through the lockdowns. It has since evolved to having access to sufficient cash to support the business strategy as the economy moves to the next stage.

In a sense, the return to viewing cash as a resource to support business development reflects the fact that the key fundamentals were unaffected by the pandemic. From the perspective of finance and treasury, treasury still wants to:

- Improve its visibility and control of cash, and to become more operationally efficient.
- Use the time saved through standardization and automation to add value to the business as a whole. Management relied on treasury's insights into cash to get through the pandemic; treasury now has the opportunity to extend its role as strategic business partner further.

Critical to achieving both these objectives has been the ongoing development of technological solutions that support automation and digitalization. Some of this technology is adopted within companies, other technology is adopted in the ecosystems in which companies operate. In combination, treasury and finance have a range of opportunities to achieve their core objectives in a highly efficient manner.

“A treasurer’s core objectives are still visibility, control and yield. However, the dynamics on yield have changed: the focus is largely on cost optimization and operational efficiency, rather than just interest rates. While there are many new digital solutions now available that lead to greater efficiency, corporates increasingly see value in solution scalability and ease of integration.”

–Ankur Kanwar, head of Cash ASEAN and global head of Structured Solutions, Standard Chartered

As companies move forward, they seek to identify ways to extend their resilience to future shocks, while still facing an environment in which their supply chains have been disrupted (both negatively and positively), and working with partners, especially customers and suppliers, is seen as a key tool to improve resilience.

It is clear that there are many opportunities for treasury to extend the automation and digitalization they have achieved over the past few years as they seek tighter control over data to generate the insights to support their business units and the achievement of business strategy. Yet, while the opportunities undoubtedly exist, treasury’s fundamental problem lies in trying to find the best way of improving efficiency.

CONTROLLING COSTS IN A CHANGING ENVIRONMENT

Along with all business departments, treasury remains under pressure to control its costs. With a tight focus on cash during the early stages of lockdown, treasury now has a much more forensic understanding of cash flows and, critically, the extent to which they can be varied and therefore controlled. There are three different approaches treasury practitioners can use to identify ways to reduce and control operational costs.

Review existing processes

The first approach is to review existing processes in light of improved insights on cash. There are a number of different elements to review including:

- **Identify unnecessary costs.** Eliminating some unnecessary costs may be as simple as continuing to use a streamlined process adopted at the first stage of lockdown.
- **Ensure existing processes are being adopted correctly.** All activities should be subject to a regular audit to ensure processes are being followed and the appropriate actions are taken when managing exceptions. Failure to follow existing processes exposes a company to unnecessary risks and, therefore, potential loss.
- **Consider ways to make existing processes even more efficient.** As treasury deepened its understanding of cash, opportunities to enhance operational efficiency may have become evident. Most treasury departments will have a list of improvements to be implemented over time. Examples could include bringing more entities into an in-house banking structure, fully utilizing all modules or capabilities of a TMS, or extending the scope of a group cash pool. Alternatively, the review of cash might have identified activities or processes that had previously been overlooked or, if included, would not be cost-effective. In addition, when evaluating the return on investment in previously implemented projects, consider whether it is possible to update or reengineer them.

Case Study: Improving Cash Pool Performance

Determining which group entities to include in a cash pool can be difficult. Regulations often restrict whether accounts can participate, and the business strategy can mean some accounts remain outside a structure as a divestment or joint venture is planned. Companies may also restructure their organizations from time to time, closing entities as projects come to an end or as mergers are completed. In these circumstances, it can take time to close bank accounts due to the legal processes required to close the entity. While, in most cases, cash balanced on those accounts will be minimized, sometimes substantial balances are retained before being returned to shareholders or the parent on closure of the entity. Including those balances in a cash pool, even when there is little movement on the accounts, can generate a higher yield than if the balances stay in a non- or low-interest bearing deposit account.

At one Fortune 500 firm, Shankar Ramaswamy, MBA, CTP, followed this approach. “After confirmation from our banks and the regulators, we connected two accounts to the global cash pool. Even though we didn’t touch the balances on these accounts, we were able to increase the cash pool balance by about USD 4 million.”

Revise processes to reduce operational risk

Managing operational risk is central to a treasury practitioner’s role. Making improvements to operational processes may incur some additional cost, depending on the nature of the improvements; however, making operational improvements should reduce the chance of loss due to error or fraud in the future. An exposure to operational risk isn’t necessarily evident as a cost; it is only when something happens that the operational risk both becomes more apparent, and the costs are incurred.

While all processes should be periodically reviewed for operational risk, two elements might warrant additional scrutiny:

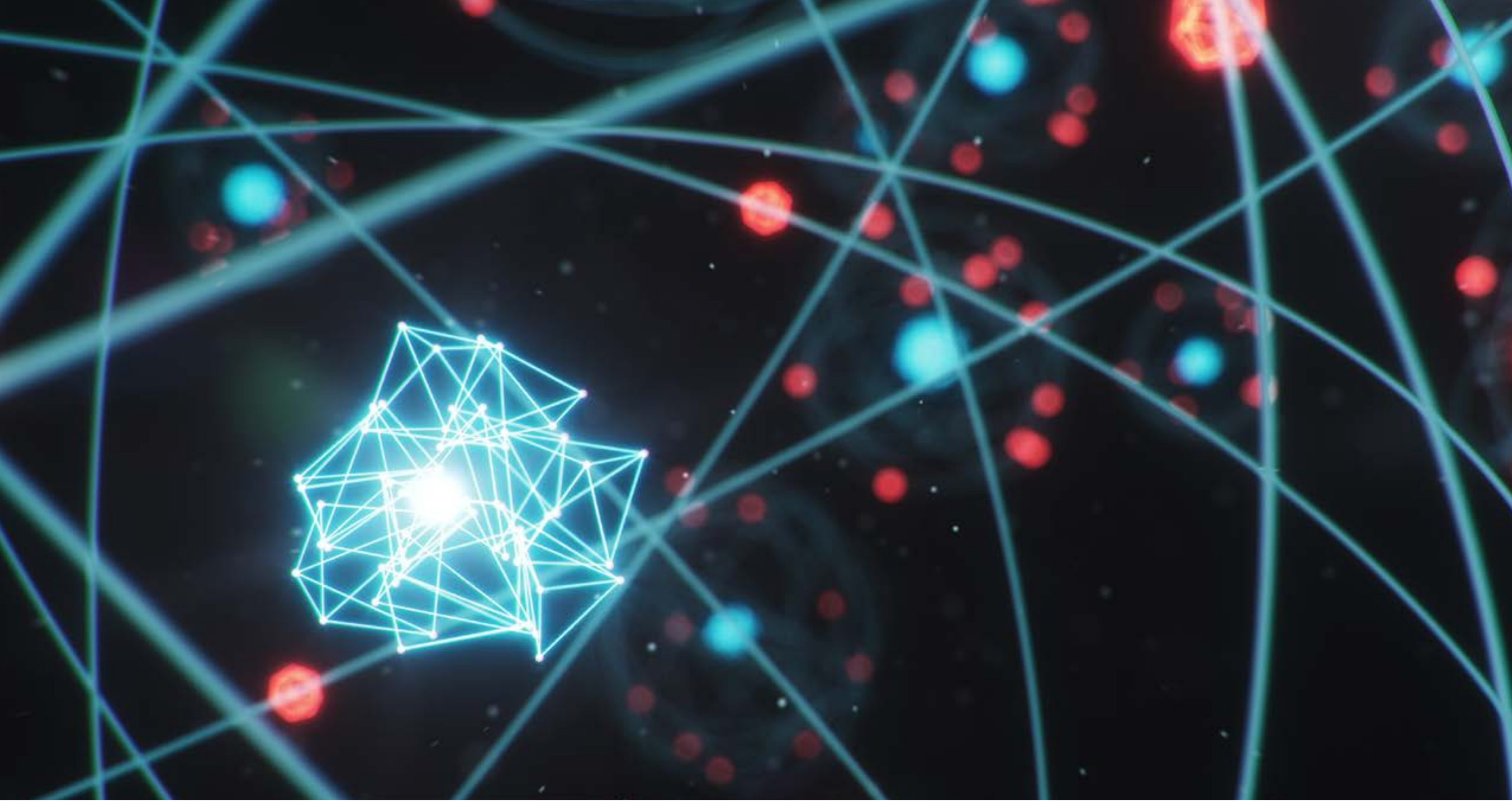
- **The use of emergency procedures.** Many companies will have revised their processes to accommodate the need for remote working, sometimes at very short notice. Treasury practitioners will want to review these emergency procedures and consider which should be retained, which can be improved, and which, if any, should be abandoned. More generally, a review of these procedures will provide helpful insight into a wider review of treasury’s business continuity procedures.
- **The threat of cyber risk.** One of the key operational risks that runs alongside remote working is the growing threat of cyber risk. Establishing operational processes designed to identify potential cyber threats and minimize the risk of falling victim to an attack ought to be central to any review of departmental activity.

Take advantage of a new innovation

The third key approach to reduce operational costs is to adopt a new technology for a specific purpose, whether by extending the use of an existing solution or adopting a new solution to automate an existing process. Many treasury departments have the scope to deepen the use of existing technology, particularly treasury management systems and the treasury management modules of ERP systems. It is also often possible to adopt a standalone technology to replace a labor-intensive activity. The implementation of AI-powered cash forecasting solutions is one example of how an automated solution can be used to replace a very time-consuming process.

Case Study: Automating Bank Fee Analysis

Danone Asia is one company that has automated its bank fee analysis process. The company imports SWIFT bank fee reports and integrates them into its treasury management system. The TMS reconciles the data and then prepares monthly comparison reports. Before automation, the bank fee reports didn't give Pulat Yunusmetov, CTP, regional treasury manager, Danone Asia, the information he needed to compare pricing. Now, the company uses the AFP standard codes, which means it has the ability to compare pricing between banks. Having access to this data gave the company the ability to negotiate better, standardized pricing across all cash management banks, representing a significant saving.



OPTIMIZING OPERATIONAL PROCESSES

The previous section discussed incremental changes that can help to reduce and control operational costs. They may be small features of a wider project, or an individual element that was excluded from the scope of a wider project. Achieving an operational improvement is one thing, redesigning an operational process is another. To achieve wider efficiencies, treasury departments may need to review a wider set of processes with a view to achieving optimization.

In any strategic project, it is critical to align the project with departmental and business objectives. In this context, it is important to define optimization. On one level, it can mean streamlining processes to a common workflow across an organization, or it can be to automate as much as possible. This raises questions for treasurers in multinational companies. Should there be one standard process across all entities, in all locations, globally? Or should the organization try to be as operationally efficient as possible at a country level, recognizing that what is possible in one country may not be feasible in another? Or is there a middle ground, where organizations seek to optimize at a regional level, reflecting some different standards and expectations between regions and countries?

There is no simple answer. Much of it is driven by corporate culture, particularly the extent to which activity is centralized. Local conditions and regulations also have an impact; it may not be possible to include entities in certain countries in a global process. It is therefore critical to go back to the core objectives, and assess any prospective project in that context.

From a treasury perspective, any project should be designed to achieve one or more of the following objectives:

- **Improve visibility over cash and risk.** Fundamentally, an improvement in operational processes should allow treasury to make better decisions. In effect, this means improving visibility over cash positions, so that treasury can optimize funding and investment decisions, both on an intragroup and external basis. It also means having closer control over business processes, automating what can be automated, so that manual intervention is minimized.

Case Study: Rationalizing the Liquidity Management Structure

Brought into his company, a global retailer with a large APAC presence, as treasury manager to establish a regional treasury center, Joris MC's goal was threefold: to set up the treasury function to be a strategic business partner to the organization, to enhance the cash culture in the company, and to improve cash visibility. The company has a complex business structure with various entities in nine different countries across the region. "It was difficult to both get a view on the cash we had and then analyze our liquidity, without needing to spend a lot of time extracting data via multiple portals," explains JMC. He started by mapping the group's cash structure (bank accounts / processes and financial systems) and considering the best way to optimize two of their processes: bank account management and liquidity management.

JMC closed several bank accounts to streamline the account structure, an approach which made intercompany funding and daily cash positioning easier. Appointing core regional banks helped too, by providing access to new credit facilities and making the liquidity management structure more responsive. The biggest challenge with the new structure was to manage regulatory requirements so to be able to document compliance with all relevant legislation on transfer pricing, thin capitalization and currency movements. He sought advice from tax and legal advisors; the bank helped with implementation as well.

The pandemic necessitated an acceleration of the project, and its implementation meant that all entities could continue to operate successfully throughout. For JMC, the solution provided the company "with flexibility to operate. It gave the business units the confidence that they would be efficiently funded," he said. With that confidence, the organization's country and finance managers could focus on running their businesses and cope with the impact of the pandemic.

- **Manage liquidity efficiently.**
  A consequent objective is to manage liquidity efficiently. That might mean bringing cash into the center so it can be distributed throughout the business efficiently, or it could mean retaining cash locally or regionally where it is needed by the business. Bank structures and relevant local regulation will both shape what is possible, and efficient, from a liquidity management perspective.

- **Manage the supply chain more efficiently.**
  Wider than an internal use of cash, treasury can sometimes support the overall achievement of business objectives by making internal improvements and supporting links along the supply chain. Smaller suppliers and customers can face problems managing their own liquidity. Their access to credit is often adversely affected if they are reliant on a small number of key contracts. Treasurers can act to strengthen supplier liquidity by implementing a range of supply chain solutions. The evolution of technology means that there are many more opportunities to be innovative when targeting the improvements treasury wants to support.

Case Study: Supply Chain Finance Solution Provides Liquidity Benefits

Suppliers to Egyptian-headquartered Mansour Automotive used to benefit from a financial guarantee in the form of standby letters of credit. The company had to fund the letters of credit by holding cash with a value of 110% of the guarantee. This structure has been replaced by a supply chain finance program through Mansour Automotive's Dubai-based financial holding company. The suppliers transact with the Dubai entity, which acts as a reinvoicing center, and the suppliers receive payment for the goods immediately. The structure benefits suppliers by strengthening their liquidity positions, while also allowing Mansour Automotive to manage its working capital more efficiently. "We can pay our suppliers immediately now, strengthening those relationships, and we no longer have to hold cash against the guarantees," explained Hisham Abouldahab, corporate treasurer, Mansour Automotive.

- **Support the business as a whole.**
  In combination, insights from cash and risk visibility, improvements to liquidity, and engagement along the supply chain provide treasury with unique insights to the cash flows that mirror the business's transactions. Automation releases finance teams from mundane, time-consuming tasks, and allows them to spend more time on strategic developments both within finance and across the wider business.

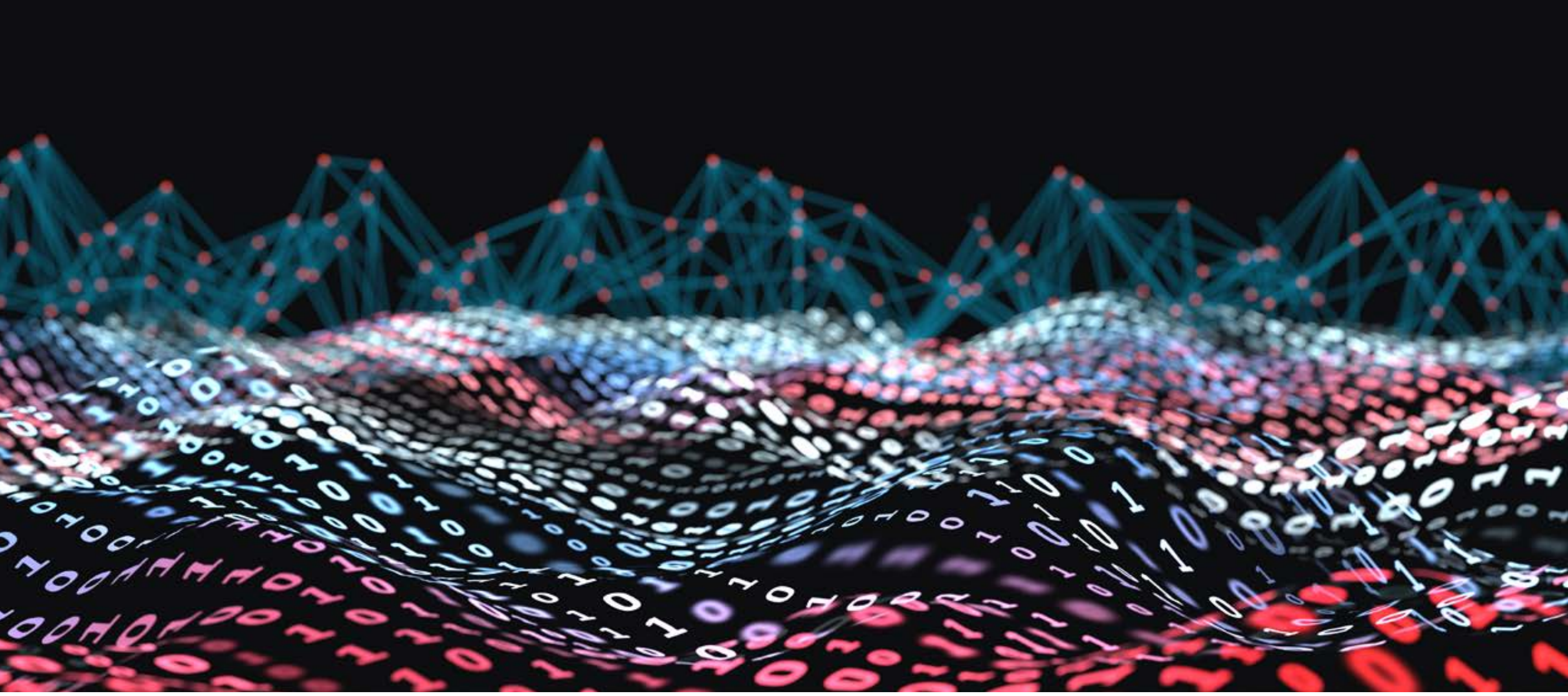
"We accelerated the automation of working capital management, FX and payments. The objective was to optimize and automate to make treasury more efficient, so we could spend time on adding value to the business and become a strong business partner to the organization."

— Joris MC, treasury manager, global retailer

However, one thing is essential above all others when seeking some form of process reengineering: review and map existing processes so they can be redesigned, if necessary, prior to automation. Streamlining processes prior to automation will ensure efficiency is maximized initially. Moreover, streamlined processes will be more scalable in future, with the flexibility necessary to incorporate new interfaces and effective data interrogation in the future.

"Process review and re-engineering is a critical precursor to large operational efficiency projects. The speed of change in technology and availability of digital solutions further emphasises the importance of regular process review and adoption of best practices in the industry. Corporates would generally run bite-sized, milestone-based re-engineering projects to demonstrate quick returns on investment."

— Ricky Kaura, head of Transaction Banking Asia, Africa and the Middle East, Standard Chartered



TREASURY DIGITALIZATION

A number of corporate treasury departments in multinational companies have been operating as virtual teams for a few years. Being able to store both data and treasury management software in the cloud is a key enabler, allowing companies to centralize their activities. For some organizations, the result is a co-located, central treasury department with team members in different physical locations around the world.

"The drivers are the same globally. It is not the "why", but the "how" that is different. Rapid developments in technology available for treasury, business friendly regulatory changes and changing consumer expectations are the largest drivers of change requests. There is also strong demand from clients to automate their end-to-end treasury flows, from initiation to reconciliation. This isn't just a cost reduction driver but also a treasury optimization driver, as treasurers remain focused on maximizing the use of cash for the benefit of their company."

— George Lee, head of Transaction Banking and Cash, Americas, Standard Chartered

The impact of lockdown requirements meant that this type of organization was extended to most companies, except that team members were at home, rather than in a company facility. (In contrast to the designed co-located team, the working-from-home team does not necessarily access treasury software and data from controlled technology in the office environment but, at least initially, via personal technology solutions.)

Company appetite for digitalization

The move to digitalization has both a cost and a risk component. Automation reduces the need for manual intervention in processes, allowing resources to be reallocated to more value-adding activities, such as supporting strategic planning. Just as importantly, automation eliminates many of the manual touchpoints in a workflow, immediately reducing the operational risks associated with error and fraud.

"Large corporates are moving beyond digitization. Recognizing the risk of losing out in the near future, they are accelerating business transformation via digitalization and in some instances, 'borrowing' from new economy business models."

— Ankur Kanwar, head of Cash ASEAN and global head of Structured Solutions, Standard Chartered

Company structure plays an important role in determining the scope for digitalization. As the ability to analyze data becomes more critical company-wide, the ability to capture and process that data efficiently is similarly critical. Managing payments is one area where the nature of interactions has started to change. Payments used to be an activity located at the end of the procure-to-pay cycle (for accounts payable) or the order-to-cash cycle (for accounts receivable), with treasury performing a largely reactive role. With the adoption of technologies that allow the capture of more data along with payments in real-time, the way companies capture and store that data becomes important not only for cash forecasting but other business activities too.

Case Study: Automation via Virtual Bank Accounts

As a leading merchant and processor of agricultural goods, timely payment and collection processing is pivotal to the LDC group's business operations. To mitigate risk, the company relies on receiving sales proceeds from its customers before shipment is released, which in turn, requires quick access and visibility of collections in the company's bank accounts.

Given the group's size and structure (it has multiple business divisions), the company processes a large number of high-value transactions on a daily basis. To gain a competitive edge, pay suppliers in a timely manner, and minimize operational risk, such as cyber fraud and manual error, the LDC treasury team automated the payment process by implementing a virtual bank account structure.

"These virtual bank accounts are used by each business unit for inward and outward transactions to separate payment in order to get the required visibility and transparency for both business and finance teams to identify the collections and payments, and update records accurately. The actual debits and credits still pass through LDC India's main current account," said Vinit Mishra, LDC India's head of Treasury and Trade Finance. "Such a system provides the treasury team with a clear overview of the flow of funds across all areas of the business and enhances efficiency in liquidity management."

The solution also automates payment and collection reconciliations via the integration of front office payment requests and counterparty details to a common database. The integration, via SWIFT connectivity and a payment factory tool, helps ensure payment instructions are submitted to the bank using accurate information; the bank also sends intraday statements (MT 942s) at regular intervals. The integration of the bank connectivity tool means credits can be applied to the relevant buyer, accelerating delivery processes by reducing the overall turnaround time on the collections side of the business. With all the data flowing through the same system, treasury has also seen improvements in the accuracy of its daily cash flow forecasts, a reduction in idle cash balances, and improved reconciliations of accounts payable and receivable.

Environmental potential for digitalization

It is largely company structure and culture that drive the programs to reduce operational costs and centralization, as discussed above. These factors are also important as a driver for the introduction of digital processes. However, local environmental factors, such as government regulation and incentives, the banking and fintech infrastructure, as well as the general approach to technology in the wider community, all play a significant role in encouraging the adoption of digitalization in companies generally, and in corporate treasury departments specifically.

> ***"The speed of regulatory change is accelerating, and the adoption of real-time payments is a digital race between jurisdictions. Early client adopters are creating competitive advantage, which is placing pressure on deployment with significantly larger volumes of information. These digital flows create a need to re-engineer outdated up/down stream processes, and treasury needs to be ready to face the changing environment, as well to strategically support business requirements."***
>
> ***— Ricky Kaura, head of Transaction Banking Asia, Africa and the Middle East, Standard Chartered***

Case Study: Digitizing FX Management

Implementing a treasury management system (TMS) can provide significant benefits for cash management, liquidity and forecasting. At Danone Asia, the implementation of a TMS has simplified the company's FX management process, which used to incorporate paper and email transaction confirmations, a time-consuming, and potentially error-prone process.

At first sight, centralizing FX management might not look possible for Danone Asia, as, due to local regulation, the company is required to execute its FX transactions onshore with an authorized bank. While this requirement remains, the company has been able to digitize the administration of FX processes via the TMS. All FX transactions are requested through the TMS, and then routed to Bloomberg for real-time execution. The company has automated the confirmation process; if a deal is matched in the FX platform, the transaction is regarded as confirmed, so no further communications are required, making the FX management fully digitized from start to finish.

Implementing the centralized process was not without resistance. Some business units were worried that they might lose control of their own onshore operations. To allay their concerns, Regional Treasury Manager Pulat Yunusmetov, CTP, launched a pilot program in one country before rolling it out to the rest of the group.

The project has not led to a clear-cut benefit on the selected rate; when compared to market prices, Danone Asia sees a possible benefit of between three and five basis points per deal. The larger benefits are on the operational side. "Our stakeholders are happy," says Yunusmetov. "By following a standardized process, we have much lower operational costs."

A digital approach

Many organizations are reviewing their processes at the moment and considering whether to extend the use of automation within their treasury operations. As with any potential strategic change, there are many factors to consider as part of that review. When evaluating potential digitalization within treasury, there are a number of key questions to consider.

- **What opportunities are there?** Functionality has to be available and accessible to be adopted. Some governments are providing incentives to digitalize their economies. The state of existing infrastructure determines, to an extent, what those governments choose to incentivize: in Egypt, the government is trying to reduce paper-based transactions by incentivizing electronic payments; in Vietnam, the digital government strategy is attracting fintech investment.
- **How can solutions be designed?** In theory, API technology offers the opportunity to package a whole range of tools together to create a solution. In practice, any implementation relying on API technology also needs to consider how the solution can be maintained over time, so the investment in the solution needs to be justified by the return. This means treasury should try to focus on the problem to be solved, such as a lack of visibility of cash, then evaluate different solutions. Unless the underlying problem is clearly understood, there is a risk that the selected solution may be sub-optimal.
- **What is the expectation?** In many ways, digitalizing the workplace reflects a growing digitalization outside the workplace. Our personal experience of using digital technology drives our expectations of what can be implemented in our professional lives. That might translate into an expectation that data can be easily accessible by scanning a QR code, or that an individual can pay for a service instantly via mobile phone. Expectations vary according to location; a good example is the different timescales between countries to introduce real-time payment rails.
- **What are the potential benefits of adoption or costs of non-adoption?** All projects have opportunity costs, and digitalization is no different. Companies will try to identify the benefits from operational improvements and set them against the costs of non-investment, particularly in terms of their competitors' strategies.

Case Study: Making Life Easier for Customers

A large logistics company has embraced digital business models across Asia and Africa, regions that are experiencing a transformation in digital commerce. As the company was developing its digital strategy, senior management quickly recognized that success depended not on isolated business units or markets that were successful in digital transformation, but on creating end-to-end digitalization from the first point of customer engagement through to final fulfillment. Furthermore, the digital experience needed to extend beyond the customer to include the company's internal processes.

The new omni-channel digital collections solution, which this company co-created with its partner bank, supports e-commerce, in-store and last mile transactions while providing the scalability that the company needs to support its future growth strategy and continued payments innovation.

The company also wanted to make it as easy as possible for their customers to pay, to exceed customers' expectations across different markets, while also avoiding fragmentation of its internal processes. The solution allows customers across Asia to make online payments in local currencies for shipping charges, duties and taxes using local payment methods, and supports tools convenient to customers, such as QR codes.

In addition to online payments, the solution enables face-to-face digital collections using the bank's proprietary app integrated into the handheld device for delivery agents. This eliminates cash processing and streamlines collections, reconciliation and reporting, while providing an excellent experience to customers.

The company has been able to eliminate cash, creating significant security, cost and environmental benefits. At the same time, the new solution provides customers with a superior experience of doing business with the company while also improving its employee experience.

- **What should digitalization achieve?** The case studies in this guide show how digitalization can increase productivity and free up time to allow treasury to add value to the business as a whole. Yet treasury practitioners, along with the CFO, will have to build a business case for a project and decide whether any required investment in digitalization delivers sufficient returns, given the competing demands on the budget and resources (including IT support) necessary to make the project a success.

Case Study: Using Data to Incentivize Distributors

Castrol used to offer its distributors monthly cash incentives. The manual process was tedious, it was a challenge to prevent the pilferage of cash, and there was a lack of data to inform the business. Working with its partner bank, Castrol digitized its entire incentive payout process. Distributors can use the company's app to scan a QR embedded on the goods purchased and get instant incentives paid directly to their bank accounts.

This solution streamlines the claims payout process for Castrol, providing them with invaluable data analytics, improved visibility through dashboards and ensures payouts are made to the correct beneficiary bank accounts. For distributors, they no longer need to fill up paper forms or wait until the end of the month to claim their incentives.

Castrol also highlighted the social impact this solution has created, as distributors will have cash directly paid to their accounts, thus leading to more savings. Its treasury and finance teams are now able to save valuable time from manual work with seamless reconciliation. Furthermore, this solution advances Castrol's treasury team towards being a truly digitalized treasury function — with real-time data on sales and incentives available at their fingertips, the team can now make intelligent incentive payout decisions to further improve and optimize sales.

Case Study: A Framework for Project Selection

Having established a treasury operation, Joris MC, treasury manager for a global retailer, has a clear template that he uses to evaluate potential technology projects. To be considered, any new project needs to bring value to the business; technology is generally used to automate mundane activities, but he also looks at the purpose beyond the purely operational targets. Projects also need to align with the corporate strategy. For example, when assessing payment solutions, there are a lot of solutions available. JMC has to evaluate not only whether a solution will save time and/or cost, but also its integration within the overall IT landscape. "Any change has to be maintainable within the current ecosystem," he said. "We only have access to a certain amount of IT support. For example, the implementation of our TMS, including all the testing, took a year, as it was done by the treasury team."

Keeping the corporate strategy in mind has helped set the priorities. JMC has used the TMS to automate both the daily cash positioning and the monthly cash performance tracking. Automation has saved a few days a month, time that is now spent partnering with the business, FP&A and the supply chain, and on improving the forecasts. There is a clear link between automation and the use of capital within the business. For JMC, more accurate forecasts mean "drawing down only what we need in the short term, putting in place the right credit facilities in the medium term, and, in the long term, deciding whether to source capital from headquarters or local facilities."

CONCLUSION: CIRCUMSTANCES MATTER

No company makes decisions in isolation; context is everything. It is no different when treasury practitioners seek to optimize their operations. Three elements affect their context:

- **Their level of maturity.** Established treasury departments that have already invested significantly in technology can often find it harder to obtain budget and time to implement further strategic changes. For more mature treasury departments, incremental change, such as deeper use of a particular module, may be easier to justify, especially if it can be presented as an extension of the earlier project.

  Foundational or developing treasury departments, as well as startups, such as a new regional treasury center, will find it easier to adopt new technology, leapfrogging the legacy systems of the more established departments. The lack of legacy systems enables them to digitalize activities more easily as there isn't the challenge of transitioning existing operations.
- **Their geographic presence.** The geographic area(s) of an operation makes a significant difference too. In each country, potential solutions are defined by regulation and the availability of technology. Internal changes can result in some efficiency gains, but real improvements come when partners cooperate. Expectations on how business should be done are influenced by the use of technology in our personal lives. As an example, the widespread consumer use of QR codes and real-time payments in countries such as Singapore influences expectations in the business environment too. If a company's customers expect to pay via an automated process, it is much easier to implement an automated solution.

Attitudes within each country's business environment play a major role in defining expectations around the use of automation, particularly along a financial supply chain. The 2020 AFP Strategic Role of Treasury report found that "organizations that categorize themselves as truly global and those based outside of the U.S. and Canada are also more likely to consider technology's role as critical to the success of the treasury function" in the coming years. In effect, those organizations that attach greater importance to the potential benefits of harnessing technology will be the ones that will invest time and resources into identifying the best ways of doing so.

While the transformative impact of real-time payments and data flows has not yet been fully felt, companies are already having different experiences depending on where they operate in the world. As an example, when compared to OECD markets, certain Southeast Asia markets have seen a much faster pace of change in terms of the adoption of automation.

These geographic differences bring their own challenges, especially for treasurers in multinationals seeking to standardize processes. It may be necessary for central treasurers, especially those based in North America and Europe, to focus on attaining visibility to cash, but leave regional and in-country personnel to manage the adoption of locally available technology.

- **Their business environment.** Finally, how competitors and partners behave is also important. Access to real-time payments information can provide a competitive advantage for logistics companies if they are able to authorize the dispatch of goods more quickly than their competitors.

  How partners operate is important too. Digitalization will provide the most value when the entire supply chain exchanges data that way. Similarly, aggregating and analyzing data from banks will work best if they use a harmonized format in the same way. Where partners don't use the same format, some form of interface is required — and must be maintained — reducing the potential benefits of digitalization.

The key experience of the past two years is the accelerated adoption of available technology innovation. Investment in fintech companies remains huge, not least because of the promise of the potential benefits of automation and digitalization. There are likely to be more, just as profound, changes to the treasury and payments environment as the adoption of real-time payment rails increases. Treasurers have to consider how best to take advantage of the plentiful opportunities to automate and optimize, and avoid being left behind by those organizations that do.

TAKEAWAYS: A THREE-STEP ROUTE TO OPTIMIZATION

The road to operational efficiency is never straightforward; treasurers are often faced with multiple options. It's often not a choice between different providers offering similar solutions to specific problems, but between significantly different products (or combinations of products) and structures aimed at achieving optimization. Decisions are made more complex by the fact that the effects of technological development and regulatory change mean that what is optimal today will not necessarily be so tomorrow. At any one time, there will be multiple ways to improve operational efficiency. The challenge for treasury is to prioritize the problems that need solving in a way that does not make solving future problems more difficult. The following framework should help.

1

Tactical improvements

There are three different approaches treasury practitioners can use to identify ways to reduce and control operational costs:

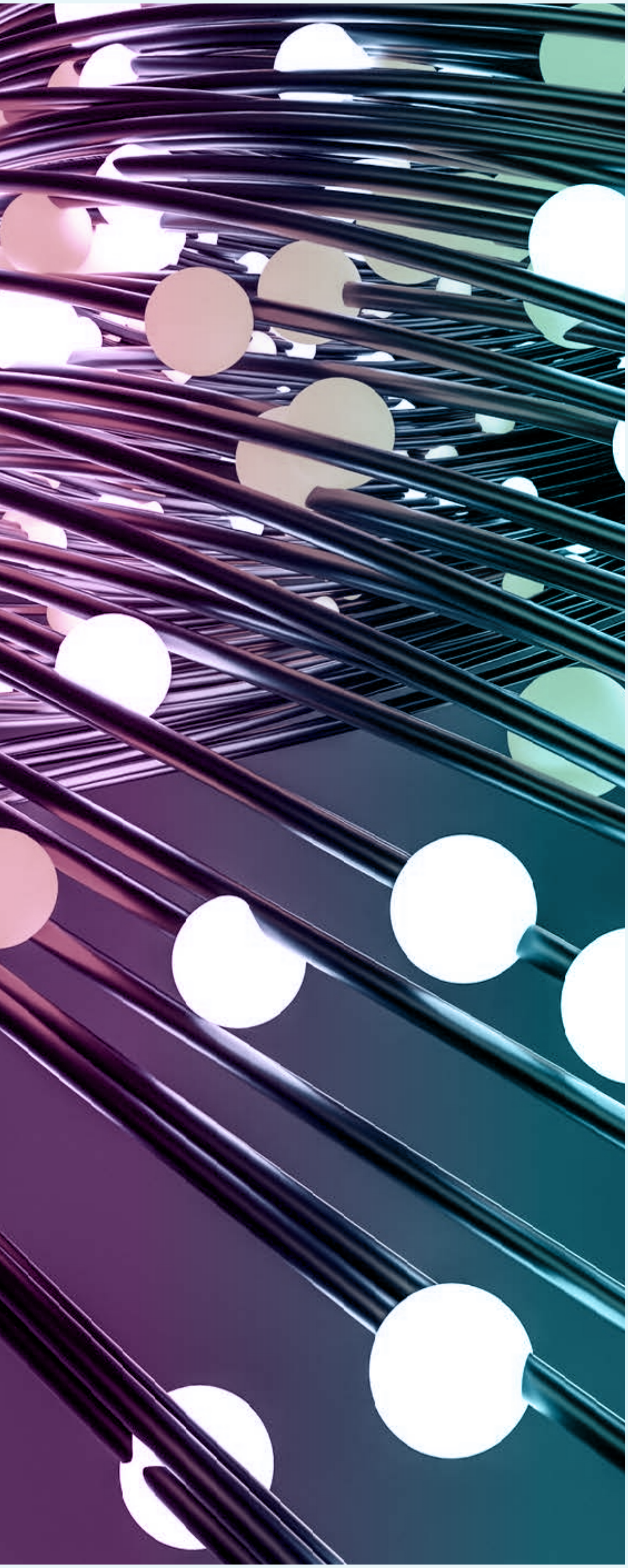
- **Use insights on cash to review existing processes by:**
  - Identifying unnecessary costs.
  - Ensuring existing processes are being adopted correctly.
  - Considering ways to make existing processes even more efficient.
- **Look at ways to revise processes to reduce operational risk focusing, in particular, on:**
  - A review of emergency procedures brought in to enable remote working.
  - Cyber risk. With the growth of cloud processing and digitalization, cyber risk represents a much more significant threat.
- **Take advantage of new innovation for a particular activity, ideally to automate and reduce manual intervention.**

2

Strategic improvements

For wider improvements, look to make strategic improvements to processes and structures that will optimize operational efficiency. There will be many different potential projects, so evaluating the alternatives is the key to success. Keep in mind the core objectives of any new project:

- **How will it improve visibility over cash and risk?**
- **How will it improve liquidity management?**
- **Does it streamline processes across different jurisdictions, accommodating the various regulatory, cultural and technological factors?**
- **What will be the impact on the efficiency of the organization's supply chain?**
- **How will it support the business in achieving its strategic objectives?**



3

Select the best project

With any potential strategic change, including potential digitalization within treasury, there are a number of key questions to be considered.

- **What opportunities are there?** Functionality has to be available and accessible to be adopted. This varies by country, according to the availability of technology and applicable regulations.
- **How can solutions be designed?** Solutions using digital technology need to solve today's problem, while being adaptable enough to manage future problems too, without placing huge demands on resources.
- **What is the expectation?** Our workplace expectations are, to an extent, driven by the faster-paced innovations in our personal lives. Again, expectations vary by country.
- **What are the potential benefits of adoption, or costs of non-adoption?** All projects have opportunity costs; digitalization is no different. What is the competition doing?
- **What will the project achieve, or how will it add value to the business as a whole?** Any treasury project needs to deliver sufficient returns, given the competing demands on the budget and resources, including IT support, necessary to make the project a success.

AFP Executive Guide: A Treasurer's Guide to Centralization: Cost Control, Operational Efficiency and Digitalization

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