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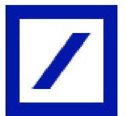

TreasuryPulse

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The Corporate Treasurer's Expanding Role

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These are challenging times for corporate treasurers. Though still responsible for daily cash management duties, the treasury department has now evolved from a processing unit to a strategic division accountable for improving the bottom line.

Meanwhile, treasury teams have either stayed the same size or, in most cases, are smaller due to an increased pressure to cut costs. In a modern corporate treasury team, this has forced a crossover between different job functions and departments, and the treasurer has been charged with pulling together and coordinating the team.

Treasurers have had to become more effective at appropriating resources from other teams, such as the accounts payable (A/P) and accounts receivable (A/R) departments. This change enables them to focus on driving solutions across many departments, which gives the role a greater strategic importance.

In addition to expanding responsibilities, regulations such as Basel III continue to have a profound impact on the treasurer's role. On top of this, the changing accounting rules under International Financial Reporting Standards (IFRS) have meant that treasurers must look at how they can best manage multi-currency flows.

Liquidity and Counterparty Risk

Liquidity and counterparty risk are key topics for corporates in today's environment, with the liquidity crisis of 2008 greatly accelerating the evolution of the corporate treasurer's role. In response to the crisis, there has been increased activity around

the centralization of liquidity, as treasurers responded by moving cash into more easily accessible accounts.

Corporates are not only concerned with their own liquidity, but are also looking more closely into the liquidity of their entire value chain. This includes buyers as well as suppliers, who are also potentially vulnerable to market shocks.

Previously, corporate treasurers have needed to focus on many different types of risk, such as liquidity, interest rate, foreign exchange (FX) and counterparty — but largely from a credit perspective (i.e., would debtors repay the company?). In recent years, however, counterparty risk has risen in importance and corporate treasurers have been forced to ask the question: What would happen if a key buyer or supplier goes out of business?

In addition to supply chain partner risk, today banks also make up a component of counterparty risk. Many banks weathered the financial storms caused by the crisis by taking on support from either governments or sovereign wealth funds. As a result, corporates have become more attuned to counterparty risk when dealing with banking partners.

A corporate must have a good understanding of its risk appetite in terms of how willing it is to concentrate its cash deposits with a single bank. Before the economic crisis, the trend was for large corporates to move toward centralizing their banking operations to a single bank. However, in recent years, the trend has reversed and corporates are looking to maintain multiple bank relationships to distribute risk. The continued interest by corporates to diversify funding sources, alongside the rebound in the debt market, means there is an increased interest in structured trade solutions that also provide liquidity to corporates as alternative funding sources.

Despite the reasons against it, the drive toward consolidation and centralization persists due to the need to drive down costs. Therefore, corporate treasurers are increasingly looking for a select number of trusted banking partners in various product areas.

Managing Risk through Payments Centralization

In recent years, many corporates have revised their overall treasury strategy to more effectively combine their commercial interests, risk and financial agendas. Quite a number have successfully implemented more centralized payment strategies with the aim of unlocking further benefit to their suppliers.

A regional payment factory solution is a good example of this type of revision. Spurred on by the recent launch of Single Euro Payments Area (SEPA) Direct Debits,

many more corporates are investigating the benefits of a central payments hub, as well as collections factories in Europe, with the aim of centralizing the receivables end of the cash management spectrum.

A payment factory is beneficial to the corporate treasury because all payables details are known in advance, including the supplier, the invoice amount, terms, etc. This means that this information can be effectively used to offer financing services to suppliers.

The payment factory model has gained further momentum due to the need large corporates have to support their key suppliers with liquidity in the form of supply chain or trade finance. Within the world of corporate cash management and trade finance, it is not only liquidity from a cash management perspective that has become prevalent. Providing liquidity by means of trade financing to either buyers or suppliers of our corporate clients, using trade financing principles and technology, is now just as important.

Next Steps

Corporate treasury managers today are facing a broad spectrum of changes in terms of their own role within the company and external pressures from new regulations. In order to take advantage of the opportunities presented in a time of great upheaval, treasurers should be looking at how to best restructure and improve their processes, as well as how to make use of more modern banking cash and trade technology.