Moving Beyond Spreadsheets

Cash Management in 2018

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Today's Presenters

Craig Jeffery, CCM, FLMI
Founder & Managing Partner
Strategic Treasurer

Craig Jeffery formed Strategic Treasurer LLC in 2004 to provide corporate, educational, and government entities direct access to comprehensive and current assistance with their treasury and financial process needs. His 20+ years of financial and treasury experience as a practitioner and as a consultant have uniquely qualified him to help organizations craft realistic goals and achieve significant benefits quickly.

Benjamin Haws
Senior Business Analyst
Axletree Solutions

Ben Haws is a Senior Business Analyst and a SWIFT subject matter expert at Axletree Solutions. Throughout his tenure with Axletree, he has been working closely with internal and external experts to develop a deep understanding of SWIFT and how it applies to streamlining treasury operations. Currently, Benjamin is enrolled at Rutgers University as a MBA candidate. He is a FinTech and treasury enthusiast.
Moving Beyond Spreadsheets

Topics of Discussion

Treasury’s Challenges & Considerations

The Complexities of Today’s Treasury Environment
- Globalization & the Impact on Currencies / Banks Used
- Number of Bank Accounts & High Payment Volumes

Introduction to Cash Management & Forecasting

Treasury’s Current State Technology Use
- Types of Systems Used by Treasury
- Methods / Processed Used to Gather / Aggregate Cash Positions

Challenges Associated with Spreadsheets
- Version Control & Collaboration
- Identifying / Rectifying Errors & Discrepancies
- Overly Manual Processes

Advantages of a Modern-Day Treasury Solution
- What Global, Real-Time Visibility Looks Like
- Streamlined Bank Connectivity & System Integration
- Forecasting & Security Benefits
- Auto-Reconciliation & Matching (Auditability)

Key Considerations
Why Cash Visibility is Important

Cost of Doing Business. Maintaining visibility to active bank accounts is required.

Protecting company assets and stewarding funds requires access to cash balances and positions.

Security Principle. Poor or slow visibility violates a key security principle: Speed Matters. It can increase the chance of fraud and delay the response to fraud.

Is the Account Necessary? If you don’t need visibility to an account do you need the account?

Decision Point. Cost-benefit analysis can help determine how, not if...

Minimum Standard. It is a standard of good corporate conduct to have strong cash visibility.

Measurement. Risk management, compliance, and fraud-related tools cannot always be directly tied back to savings.

Value. What is the value of better forecasting and liquidity management? Of better fraud detection?
Expanding Global Footprint

- Firms in the modern world are increasingly operating not just in new countries, but in entirely new world regions.
- 83% of companies operate in more than one country, and 1/3 operate in 20+ countries.
- In a related question, it was found that at least 1/3 of firms were operating in each of the major world regions (Africa, Asia, North America, etc.).
- Globalization introduces complexities related to bank connectivity, risk, data aggregation, cash visibility, etc.

Our Business Operates in this many Countries:

- 50% operate in 1 Country
- 17% operate in 2-20 Countries
- 12% operate in 20-40 Countries
- 10% operate in 40-80 Countries
- 11% operate in 81+ Countries

Expanding Global Footprint
Cash Visibility: Bank Account Structure

**Bank Account Complexity**

- Firms often find that expanding new countries or regions necessitates the formulation of new bank relationships and the opening of new accounts.
- Different accounts may also be used for different purposes (disbursements, collections, currency accounts, etc.).
- This has resulted in a landscape where many firms operate with hundreds, if not thousands, of accounts.
- Maintaining visibility to cash positions becomes quite complicated at this point.

**Number of Bank Accounts in Use Globally**

How many bank accounts do you have?

- Over 1000: 15%
- Over 500: 9%
- 101 to 500: 30%
- 25 to 100: 25%
- 11 to 24: 7%
- 1 to 10: 13%
Treasury Complexity Considerations

High Payment Volumes

• While tracking a few hundred payments in Excel may not be a challenge, many organizations have much more complex payment operations than this.

• Today, 50% of firms are making more than 10,000 payments globally every month, often in a range of different currencies and to an array of banks and bank accounts.

• Tracking these immense levels of activity in Excel is practically impossible, especially for treasury departments operating with limited staff.

What is the approximate volume of payments you generate globally per month (check, ACH, wire, etc.)?

- 1-100: 11%
- 100-1,000: 12%
- 1,000-10,000: 28%
- 10,000-100,000: 15%
- 100,000-1,000,000: 11%
- 1,000,000-10,000,000: 10%
- >10,000,000: 14%

2016 Global Payments Survey
Currency Management

- Another challenge associated with cash visibility and management is the use of multiple currencies.
- Ongoing globalization necessitates the use of new currencies depending on the country and region of operation.
- Additional currencies may also come into play as part of an FX exposure management strategy.
- Currency conversions are difficult to account for in Excel or via spreadsheets, especially during the financial reporting and auditing periods.

<table>
<thead>
<tr>
<th>How many currencies do you regularly make payments in?</th>
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<tr>
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<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
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<td>3-5</td>
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<td>6-10</td>
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<td>11-15</td>
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<td>16-20</td>
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<tr>
<td>21-30</td>
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<tr>
<td>&gt;30</td>
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</table>

2016 Global Payments Survey
Stagnant Growth in Visibility

- Having a globally distributed and diverse array of bank relationships causes challenges with maintaining account visibility.

- After heavy growth following the financial crisis, data has highlighted that roughly 70% of corporates maintain daily visibility to 90%+ of their accounts.

- While the use of updated technology solutions has helped in this area, firms that use legacy systems or that rely on Excel still experience immense challenges here.

Bank Account Visibility

What percentage of your operating bank accounts do you have visibility to on a daily basis?
Bank Account Discovery

- As some organizations maintain hundreds or even thousands of bank accounts it can be easy to lose track of one or two accounts.

- This is particularly problematic for firms operating without a TMS or other treasury solution, as accounts can be lost in the weeds.

- Over 1/4th of companies have discovered a bank account that was previously lost or unaccounted for.

- This lack of visibility introduces fraud and audit challenges and highlights the struggle that maintaining visibility to every account can become.

Have any active bank accounts been discovered that were previously unaccounted for by treasury?

- No: 63%
- Yes, within the past year: 12%
- Yes, one to two years ago: 14%
- Unsure: 11%
- Other: 0%
Data Aggregation: Managing Visibility

- Challenges in maintaining visibility and developing cash positions are amplified by the use of outdated workflows and technologies.

- Similarly, the use of multiple workflows or systems to gather data can cause inefficiencies and redundancies as information is rekeyed and relogged.

- The more manual and diversified a company’s data aggregation workflows, the more tedious and error-prone it becomes.

How do you get treasury data from your offices / headquarters? (Select all that apply)⁷

- From a data consolidator/SWIFT/SWIFT Service Bureau: 14%
- E-mail: 33%
- Paper statements: 3%
- Excel spreadsheets: 49%
- File transfer to ERP: 11%
- Via direct link to regional banks: 37%
- From a global ERP: 25%
- Other: 8%
Cash Visibility: Timeliness of Reports

Data Aggregation: Timeliness

- The manual data aggregation workflows in place at many companies are particularly costly in terms of timeliness.

- Timeliness of reports/data is key for treasury, as up-to-date cash positioning and reporting are vital for treasury in managing liquidity and developing short-term forecasts.

- Streamlined reporting and data aggregation can also help quickly identify anomalous transactions and prevent fraud from occurring.

- If it takes days to create cash positions, the data may already be outdated and unusable.

How long does it take to consolidate data from regional offices?*

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real time</td>
<td>20%</td>
</tr>
<tr>
<td>Less than 1/2 day</td>
<td>25%</td>
</tr>
<tr>
<td>One day</td>
<td>25%</td>
</tr>
<tr>
<td>Two or three days</td>
<td>18%</td>
</tr>
<tr>
<td>Four days to a week</td>
<td>5%</td>
</tr>
<tr>
<td>More than a week</td>
<td>8%</td>
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</tbody>
</table>

*8

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Which tools are you currently using for cash reporting? (Select all that apply)²

- Excel or other spreadsheet(s): 81%
- Bank portals: 50%
- ERP / other back-office systems (AP/AR): 37%
- Treasury Work Station / Treasury Management System: 49%
- Other: 0%

Do you have a treasury system besides Excel?³

- Yes, Software as a Service (SaaS), Cloud, or Fully Hosted: 39%
- Yes, an installed system: 38%
- No: 58%
- Other: 4%
Challenges Associated with Spreadsheets

- **Manual Workarounds**
  - Lack of STP or integration of spreadsheets with other systems means that treasury’s workflows will be overly manual when compared to the use of a TMS or ERP module.

- **Version Control**
  - As staff members update spreadsheets or share them across the company, maintaining a single source or version of the data becomes difficult. There may be an array of approaches / formulas / categorizations.

- **Identifying Errors**
  - Proofing spreadsheet logic and formulas and identifying errors or inconsistencies can become complicated, especially as more accounts, countries, currencies, and subsidiaries come into play.

- **Aggregating Data**
  - Consolidating data from bank statements and positions received from regional offices / subsidiaries is heavily manual and time consuming when using spreadsheets.

- **Timely Reporting**
  - Converting spreadsheets into reports or other visual aids to present to executives can be tedious, especially if there is no established workflow for converting data or worksheets into graphics.
Moving Beyond Spreadsheets

Challenges Associated with Spreadsheets

Spreadsheet Use: Challenges of Cash Management

Central Treasury
When working with spreadsheets, treasury may receive files in multiple formats from their banks, regional offices, and other internal departments that they must import into their cash positions.

Regional Offices
Information delivered via email and exported into Excel

Internal Departments
AP, AR, Procurement, etc.

Bank Statements
Statements exported from a bank portal into Excel

Inefficiencies Abound
The process illustrated here introduces multiple manual workarounds, time delays, and error-prone processes that can be altogether avoided through the use of an enhanced cash management solution.

It Does Not Have to be Like This
As the challenges inherent in cash management operations grow, treasury must recognize the opportunities for cost and time savings that are available in a modern-day TMS.
Global Cash Positioning

- Corporates often have banks dispersed globally that they must interact with to gather data on cash positions/balances.
- Many banks have legacy systems or outdated tech infrastructures that make data transformation difficult and overly manual.
- While some corporates continue to leverage individual bank portals to export statements and balances, many of today’s TMSs can integrate with bank systems to automate this process and aggregate balance/transaction information from all bank partners in real-time or near real-time.

Without a TMS or other connectivity solution, corporates must often use individual bank portals to download reports and statements.

TMS software that provides automated and easily-integrated workflows for corporate/bank interactions can save treasury hours every day.
Streamlined Integration & Connectivity

- The below illustration highlights a fully integrated bank connectivity architecture. The advantages of utilizing a TMS or Treasury Aggregator with bank connectivity capabilities includes real-time balance reporting and alerts, built-in data validation, and straight-through-processing (STP) between third party and back office systems.
Advantages of Modern-Day Treasury Solutions

Auto-Reconciliation Features

- The ability for a TMS or other solution to auto-reconcile transactions with bank statements as they become available not only saves treasury time, but also quickens the pace at which anomalous payments or discrepancies can be identified.

1. **Initiation.** A company initiates payments and directs them to their bank through a TMS, ERP, or other software.

2. **Transmission.** These payments are then routed through a TMS, ERP, or other solution to the bank. Files may be directly transmitted to the bank as well.

3. **Execution.** Upon receiving the payment details, the bank will run their own security checks and then execute the orders.

4. **Posting.** After executing the orders, the bank will update the client’s bank statement, usually online or through a bank portal.

5. **Retrieval.** These bank statements may be pulled automatically from a bank portal or system by the client’s TMS or other solution, so that statements can be retrieved same-day or by the next day.

6. **Matching.** The corporate’s system compares the bank statement to their list of approved payments and quickly identifies any anomalies (i.e. changes to invoice numbers, amounts, unauthorized payments, etc.).

Many of the sophisticated TMS options available today can perform the entire cycle, from payment initiation and transmission through to retrieval and matching.
Advantages of Modern-Day Treasury Solutions

Real-Time Variance Analysis

- Timely variance analysis can help identify shortcomings within treasury’s cash forecasts and aid practitioners in improving the accuracy of their forecasts moving forward.

- The faster treasury can conduct variance analysis, the quicker they can correct misestimations and improve future forecasts.

- Today, many treasury solutions have integrated cash management components with forecasting so that this process is automated and streamlined.

Cash Positioning. Balance statements from banks are automatically downloaded and captured in the cash management module of a TMS.

Variance Analysis. The cash management module can integrate with a forecasting module to provide variance analysis on cash flows in real-time.

Enhanced Liquidity Management. The end result of this process is that treasury is able to more effectively manage cash flows and anticipate liquidity needs.

Updated Forecasts. This real-time analysis enables treasury to quickly update their forecasts and enhance the accuracy of anticipated cash flows.
Final Thoughts

The Cornerstone of Operations. Cash management is a pivotal component of treasury’s processes and one that facilitates efficiencies in other areas, such as liquidity and working capital optimization, fraud prevention, etc.

Beware of Challenges. In the modern environment, the challenges related to achieving cash visibility involve ongoing globalization, expansive bank relationships and account structures, and legacy technology infrastructures.

Spreadsheets are No Longer Acceptable. Given the current landscape, the inefficiencies inherent within spreadsheets as compared to a TMS or other sophisticated treasury solution are significant.

Modern Tech Delivers. Adopting a technology solution with real-time cash positioning and connectivity with other back-office systems, banks, and subsidiaries worldwide introduces monumental advantages through streamlined integration and STP, automation, and centralization.
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