Taking Your TMS Beyond Treasury

By **Rudolph Janse van Rensburg**, Director and Head of Treasury Technology, TreasuryONE

The benefits of implementing a treasury management system (TMS) to optimise one's treasury operation have been well-known for a number of years, but in recent times the traditional scope of the treasurer's responsibilities and the tools at their disposal have broadened substantially. Not only can treasurers now use a TMS to eliminate manual, spreadsheet-based activities from their daily operation, they can now also add value to downstream finance processes. Accounts payable/receivable, bank reconciliations and accounting are all processes within the broader finance function that can be enhanced by applying the broader scope of treasury technology applications.

This article will explain some of the treasury and finance processes that benefit from the broader application of treasury technology applications. It will also describe how various benefits are achieved in practice without over-stressing the organisation's operational and financial resources.

1. Machine learning introduced into the payments and other treasury processes

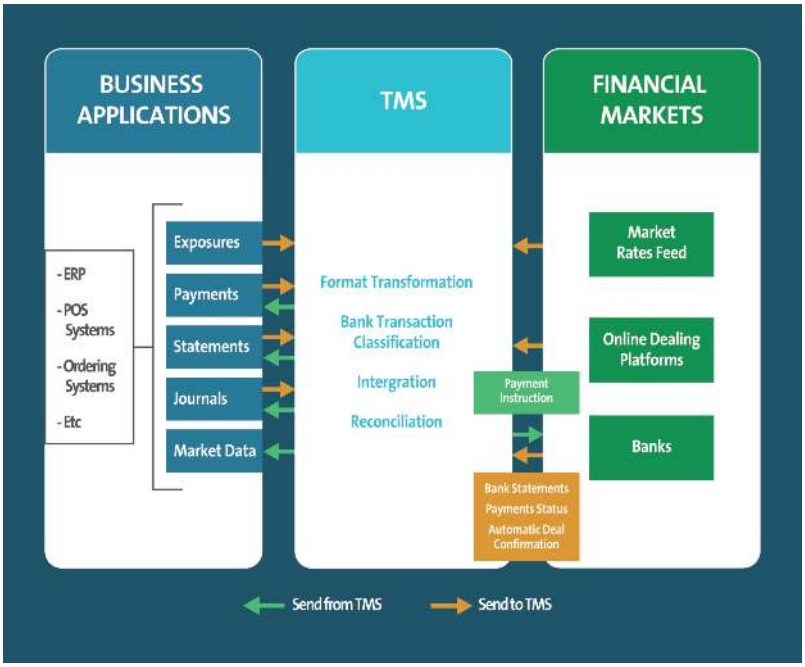
Payment processing and execution is a critical function for most corporate treasury/finance departments. Failure to manage these activities effectively can directly impact your business's cash management accuracy, reduce operational efficiencies and increase the difficulty in complying with regulatory requirements as well as introducing the risk of fraud. These risks are further compounded in an organisation operating in multiple jurisdictions and currencies. Best practice treasury systems now not only provide increased transparency, payment workflow automation and payment transmission securely through various encryption protocols, but this functionality should now also be fully integrated with automated fraud detection and prevention capabilities.

Payment fraud detection goes beyond standardised controls such as the segregation of duties and approval limits. It introduces a layer of Artificial Intelligence (AI) within the payment process to allow users to set predefined detection rules and to use these rules to screen for suspicious payments –which would then require further attention without influencing other compliant transactions. It can also identify trends from historical payment information and recognise inconsistencies with these trends moving forward. Other examples of how this functionality mitigates fraudulent payments include:

- Domestic transfer to a beneficiary's bank account located in another country
- International payments to a country where there is no record of a supplier
- Multiple payments that, in combination, would exceed a soft or hard payment limit
- Changes to a payment that was imported from an ERP
- The first payment to a new, or newly updated, bank account
- A payment inconsistent with the amounts or dates of the payment history

Similarly, other aspects of the modern-day corporate treasury are being digitised to further streamline processes, enhance its risk management capabilities and free up the treasurer's time to focus on more strategic aspects. As an example, there is a growing trend for corporates to automate certain aspects of their hedging activities by implementing innovative workflow management tools now being created by an ever increasing number of banks and deal aggregators (like NEX, 360T and FXAll). The intelligence built into these tools allows the treasurer to set up a combination of predefined rules from where transactions can be executed automatically. These rules will typically reflect the organisation's risk management policy. Once these deals are executed they will immediately be visible in the organisation's TMS from where the transactions can be automatically confirmed via SWIFT, managed until maturity, settled and accounted for in the ERP of the business.

Fig 1 Business application, the TMS and the financial markets



2. Bank statement automation & integration

A TMS should be able to connect your business to its various banking partners across all geographies and automatically import every bank account's statement

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(e.g., opening balance, list of inflows and outflows and closing balance of the previous day). The TMS can use this information to generate cash account journals and automatically post these entries to the business' general ledger(GL). That eliminates the time-consuming effort and the error-prone manual process of posting to the GL. Dual and multi-sided entries from the bank and internal cash transactions (applicable when you are running an in-house bank) can all be incorporated. Automated rules scan transaction characteristics – such as bank charges and interest earned/paid – on your bank statement to apply to the appropriate GL accounts. It then creates a set of entries that integrate electronically with the GL on a scheduled and fully automatic basis.

The TMS should be easily configurable to accommodate any ERP system and should, as a rule, not require specialised development and coding to achieve this connectivity. This allows your ERP to read a single bank statement format and the TMS to perform all the required format transformation. If you've chosen the right treasury system, this functionality will benefit all types of organisations – whether you're global, complex, centralised or decentralised – and will be able to support multicurrency and multiple charts of accounts.

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3. Reconciliation of general ledger entries.

Traditionally, the TMS was used to automate the reconciliation of treasury-specific transactions while other parts of the finance function still struggled with manual reconciliations for transactions that fell outside treasury's area of responsibility. The new generation of treasury management platforms can be used as the central engine for all bank and ERP transaction reconciliations. Besides this, one can make use of the unique and customisable matching rules in the TMS to reconcile information from any other business system in your company – such as point-of-sale systems, ordering systems and the bank statement information with the ERP. By using the TMS for GL reconciliation one also supports regulatory reporting by providing proof that bank activity is synchronised with the GL bookings within the ERP and by segregating duties between the reconciliation process and the generation of GL entries.

4. Using the TMS as a central connectivity hub

The TMS consolidates the data from other sources – received either via Host-to-Host/Swift, API, FTP/SFTP – and then transforms this data into a required format and forwards the data to relevant systems. The optimally implemented TMS will sit between your banking partners, rate-feed providers and the ERP. This set-up allows strategic freedom to the treasurer to negotiate banking relationships and incorporate new territories seamlessly into the group, knowing that the TMS will handle the required connections and transformations required quickly – thus avoiding major disruption to operations and large IT projects for accounting systems. (See Figure 1.)

5. Leveraging the TMS's security infrastructure.

With fraud and cyber-attacks being executed with greater sophistication and precision, it is now more important than ever to ensure that treasury information is protected, even in the unlikely event that treasury's user IDs and passwords are compromised. The security infrastructure of the TMS can be used to further protect the company from fraud and cyber-attacks by using it to encrypt, authenticate and administer transactions between the company's banks and its ERP. The wider scope of treasury management systems should be able to further strengthen your business' security protocols by providing the following functions as standard functionality:

- Two-factor authentication (2FA) creates a randomly generated one-time password that is delivered to a predefined hard token (Yubikey) or soft token (via SMS to user's smartphone) and can be implemented on its own or in combination with other application security features. 2FA can also be used to validate users during the payment-approval process.
- IP Filtering allows users to restrict log-in to your TMS to predetermined IP addresses. This is a global feature that usually applies to all of a company's users and can also be used in combination with two-factor authentication.
- Enterprise SSO allows single sign-on with a company's internal security environment. It uses SAML 2.0 for LDAP authentication so that each user's security credentials (such as his or her Windows user ID and password) can be used to log in to the TMS and can optionally be used alongside other capabilities such as two-factor authentication and IP filtering.
- The TMS should also monitor workflows and treasury activities within the application to help detect unauthorised use and potential fraud. As a general guideline, it should be able to monitor and analyse:
  - Bank connectivity failures, including files expected but not received
  - Payment files where final acknowl-edgement was not received

- Escalation and summary of pending workflow approvals
- Real-time status alerts of additions, deletions or modifications of data
- Stoplight status for detection of task error
- The TMS should also be able to make use of SWIFT 3SKey functionality for both SWIFT and non-Swift payments.

6. Supply chain finance solutions (Reverse Factoring & Dynamic Discounting)

Access to liquidity is an ever-growing concern for corporates all around the world. If one has too little, your business can't procure, produce, expand, etc. If one has too much, you pay unnecessary commitment fees for your facilities while also receiving suboptimal returns on the excess cash you generate. The implementation of Reverse Factoring and Dynamic Discounting assists in solving this problem by bringing together buyers, suppliers and funders onto a single platform. Benefits include:

- Extension of the organisation's DPO (Days Payable Outstanding) and the improvement of its suppliers' DSO (Days Sales Outstanding) – creating excess liquidity for both the corporate and its suppliers.
- The corporate's suppliers get access to funding at a much more competitive interest rate than they would obtain themselves from financial institutions.
- Funders can take the opportunity to finance suppliers by leveraging the stronger balance sheet of the buyers.
- By implementing these working capital programmes, the corporate partially de-risks their supply chain by ensuring key suppliers have adequate access to funding. This reduces the possibility of disruptions in supply/production/deliveries from these strategic suppliers.
- As your working capital programme is fully integrated with your TMS, settlements (whether to your funding partner or suppliers) automatically form part of your cash-flow forecast and payment workflow, returns on the programme can be tracked in real time and accounting journals are generated automatically.

The points highlighted above illustrate how the focus from most treasury management system vendors should be – or already has been – expanded to accommodate the changing landscape of the treasurer's role and the challenges they are being confronted with on a day-to-day basis. Secure automation of treasury processes and the facilitation of straight-through processing and the need for the treasurer and his team to be more strategic have become two sides of the same coin. You cannot have one without the other.

So, in summary, your TMS should be scalable so that you can easily incorporate new functionality as your treasury grows, incorporate best practice security and control protocols, seamlessly integrate with your ERP (and other business systems), banking partners, online dealing platforms and market rate providers. Your TMS should not only facilitate this integration operationally, but also give you the tools to guide other areas of your finance function with regards to potential process automation possibilities. ■

Rudolph Janse van Rensburg

Director and Head of Treasury Technology, TreasuryONE

Rudolph is a leading expert on treasury technology with in-depth knowledge of best practice treasury set-up and treasury outsourcing models, as well as the integration with banks, ERP systems and other financial institutions. He has been involved in treasury management system projects for the past 10 years and has completed more than 60 treasury implementations across Southern Africa, Europe and the Middle East.

As Director and Head of Treasury Technology at TreasuryONE, he designs and delivers system demonstrations, performs needs analysis and solution design exercises, scopes and manages implementation projects, and is responsible for client relationship management.

Rudolph holds a B Com Accounting and a B Com (Hons) in Financial Management, from the University of Johannesburg.

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