TREASURERS: THE FIRST LINE OF DEFENSE FOR ECONOMIC DISRUPTION

HOW TREASURERS LEAD THE WAY WITH HELPING THEIR COMPANIES PREPARE FOR THE UNEXPECTED

GTreasury and PricewaterhouseCoopers (PwC) are collaborating to present a series of white papers on topics that concern CFOs and Treasurers—supporting them to succeed in their roles. ***This is the first in the series on managing market volatility and other economic disruptions.***

Is your business taking on more risk—beyond normal business risk?

Inflation is the highest it's been since 1981. The impacts of the pandemic and global political events are still lingering. Economic growth is slowing down. Even if the major economies avoid recession, interest rates are expected to remain high to combat inflation and financial conditions will remain tight.

Most organizations are no strangers to risk. Unfortunately, today, this risk has taken on new heights. So what are businesses doing to navigate?

Leaning on Treasury Departments.

We're seeing treasury organizations leading the charge with not only protecting company assets but also capitalizing on timely opportunities caused by such volatility. Treasurers have access to vital organizational data, and now they are on the front lines by becoming more involved with data analysis and tools that empower their decision-making in uncertain market conditions.

Considering the economic and financial risk, senior management are leaning more on treasury to help navigate these issues. As such treasury is focused on three critical areas:

1. **Improving cash and liquidity management** with a focus on optimizing cash deployment and increasing cash reserve yields
2. **Enhancing risk management** with an improved hedging program
3. **Committing to leveraging technology and digital innovation**

These functions and focus areas play a significant role in improving an organization's ability to weather storms and come out with strategic advantages—and Chief Financial Officers (CFOs) are well aware of this. This is underpinned by PwC's 2021 Global Treasury Survey, which identified these three areas as top priorities for corporate treasury. Additionally, focusing on these areas supports two other priorities for CFOs: sustaining the treasury's relationship with the broader business (by being in touch with cash, liquidity and working capital needs) and cracking down on fraud risk and cyber security (by prioritizing sound technology and raising digital acumen).

In this white paper, we will walk through each area of focus and discuss how, by improving these capabilities, treasurers can help their organizations take the lead in managing the unexpected.

Improve Cash & Liquidity Management

MORE ACCURATE FORECASTS LEAD TO:

- Operational cash management
- Rate of return on investments
- Higher confidence in paying down debt

Successfully navigating volatility is a collective effort between Treasury, Financial Planning and Analysis (FP&A), and business partners, requiring well-aligned working capital strategies and business-wide operational improvements. But treasury's role in particular starts with cash forecasts—and making them more accurate and frequent.

Cash forecasting is among the top challenges of treasurers today. The hardest part? Gathering internal data from disparate sources, followed by doing variance analysis in a timely manner and overcoming inefficiencies caused by slow technology and manual, time-consuming tasks.

However, overcoming these challenges is essential to preparing your organization to manage the unexpected. An accurate forecast, powered by advanced analytics and connectivity, is what drives better access to liquidity, visibility to cash balances and prediction of cash flows, advantageous in stable conditions, but critically necessary in volatile conditions.

48%

OF TREASURERS SAY CASH FORECASTING IS SOMEWHAT OR EXTREMELY DIFFICULT

2021 Strategic Treasurer Cash Forecasting & Visibility Report

Now more than ever, treasurers also need to conduct more frequent forecasting, which means they need access to the most up-to-date company data available. Having a disciplined forecast-to-actual variance analysis process is also critical allowing for continuous improvement and nimble decision-making. Lastly, scenario analysis that considers potential changes in interest rates and economic growth impacts is necessary given expectations for sustained movements and volatility. Bottom line: during a volatile market, accurate cash forecasts at a higher cadence with more scenarios built is critical to improving day-to-day financial decision-making.

Once a robust forecasting process is in place, treasurers can lead their organization through economic and market turbulence by optimizing cash and liquidity management.

With an accurate, frequent forecast in place, treasurers can sustain a state of active readiness. If things don't seem to be heading in the right direction—or world circumstances start to look dire—treasury will be able to act earlier.

So what actions can treasurers take to reap the benefits of an improved forecasting process and help the organization manage financial turbulence?

There are three key actions we recommend:

1. **Increase investment yields** by investing excess cash in instruments with higher interest rates. With central banks expected to continue to raise interest rates to fight inflation, it is particularly important to re-allocate investment of excess cash across bank deposits, Treasury Bills (T-Bills), and Money Market Funds (MMF) to take advantage of larger spreads.

2. **Leverage advanced liquidity management techniques,** such as in-house banking, payment and collection on behalf of models (POBO/COBO) and virtual accounts. In addition to reducing your transaction costs, these techniques will allow you to further concentrate cash, re-deploying where needed to minimize operational disruptions and increasing the amount of excess cash available for investment.

3. **Enhance working capital management** by using the forecast as a tool to identify opportunities to improve cash conversion and by implementing a working capital council—a committee that meets regularly to discuss working capital needs and key metrics—that can help them communicate the type, level and frequency of data flows they need from other departments to support timely and accurate forecasts. Start by focusing on receivables and payables management as “quicker-wins” and evaluate implementing working capital management techniques such as receivables factoring and supply chain finance as sources of liquidity if operational cash flow generation decelerates.

Each of these action items requires the right supporting, integrated technology (more on this in section three) and the utmost collaboration with the broader business. This is because, even though treasury is the keeper of forecasts and working capital, other departments—like Accounts Payable and Receivables (AP/AR), procurement, finance and sales—all carry out actions that can increase or reduce liquidity.

But this is not the only treasury function that helps organizations plan for volatility. Next, we’ll talk about financial risk management and how, with hedging, you can trade uncertainty with certainty.

Evaluate Your Current Approach to Financial Risk Management

With rising interest rates and ever-fluctuating foreign exchange rates wreaking havoc on global markets, financial risk management remains a top three priority for treasurers.

More specifically, in the current environment, financial risks have presented treasurers with the following potential scenarios to consider:

- Should floating rate debt be converted to fixed rates? If so, for how much debt principal, over what maturity, and what will the impact be on overall fixed to floating debt ratio?
- Do we tweak the more stable G10 currency programs vs. increase or commence hedging the more volatile emerging market currencies?
- How will foreign exchange (FX) volatility impact our local market competitiveness and longer-term contract pricing policy? Will contract renewals introduce roll-over risk?
- Will the war in the Ukraine continue to negatively impact commodity prices? Should product inputs ride out the conflict or are longer term contracts the solution?

Hedging is a helpful (but often under-utilized) financial risk management strategy that can protect organizations against "regular" (FX), interest rate (IR), or commodity price risk associated with running a business.

While hedging can't protect companies fully from black swan market events, it can give you the ability to keep operations steady so you can redirect resources in response to said events.

Treasury departments—and their financial risk management programs—create stability and certainty in the entire organization, better positioning the company to weather any storm.

As such, now is a great time to evaluate your risk management activities, consider a hedging program, or continuously improve your existing one. However, hedging is not for everyone. Here's how to evaluate an existing hedge program or consider adoption of a hedge program.

1. **Baseline and assess exposures:** Obtain baseline understanding of risk profile, exposure management, hedging objectives and competitor landscape. Map out detailed transaction flows, processes and manual touchpoints. Quantify exposures and the sensitivity to market fluctuations.

2. **Define the policy and align the organization:** Define the hedging policy and obtain buy-in across all relevant stakeholders (e.g., BU's, finance and accounting, treasury). Establish a risk management committee to provide program oversight.

THINK OUTSIDE OF THE BOX WITH YOUR HEDGE PROGRAM

Approach hedging from an economic viewpoint—viewing risk holistically instead of through the shortsighted prism of accounting.

IS HEDGING RIGHT FOR YOUR ORGANIZATION?

Yes, if...

- **Your company has significant exposures on or coming onto the books that can impact earnings or cash flows.**
- **You are unable to pass the risk onto your customers or vendors.**
- **Your identified exposures qualify for hedge accounting.**
- **You are willing to lock in the known and risk the loss of upside, or willing to pay to insure against the downside.**
- **You recognize the need to learn or expand to meet recommended control and competency levels.**

EXAMPLE HEDGES

- Fixing rate today to apply in the future
- Taking an opposite and offsetting position
- Paying a premium to insure against a loss of a position

3. **Design and implement hedging program:** Design and implement the process, infrastructure, accounting and reporting elements.

Hedge programs are often disconnected from C-suite objectives. Treasurers are caught up in the accounting (dealing with restraints) while CFOs are focused on making strategic decisions about the company's functional currency, hedge program objectives and derivative instruments to achieve desired results.

However, it's not uncommon for the CFO to use a hedging strategy that aligns only with their accounting guidelines but limits them from making sound economic decisions. Too much focus on accounting (without considering economics) keeps treasury risk programs "inside-of-the-box."

The optimal way to prevent this is to meet regularly with business counterparts to understand economic exposures.

Unfortunately, due to other organizational challenges causing limited bandwidth, many treasury teams are struggling to find time to have these meetings. The PwC 2021 Global Treasury Survey reports that only 23% of treasury leaders conduct touchpoints with a regular cadence, and 37% have infrequent, ad hoc meetings.

Not to mention, key contributor risk and leaking expertise in hedging from turnover has been rampant, making meeting risk management goals more difficult.

Luckily, technology and advanced data applications can fill these gaps—and even unlock new strategic opportunities. Next, we'll take a look at the technology priority for both financial risk management and cash and liquidity management.

Invest In Technology

To respond to the pressures of volatility, CFOs and treasurers are focusing more and more on technology improvements and digital innovation.

Today's volatility has put a lot of pressure on treasury teams trying to respond to extreme cash and liquidity challenges. The same is true for heightened levels of FX, IR and commodity price risk. Let's take a brief look at each function and how technology can fill the gap.

ADVANTAGES OF AUTOMATING CASH PROCESSES

- Increased visibility and control over cash
- AI-powered predictions into future liquidity requirements
- Real-time updates to transactional data
- Faster connectivity flowing into forecasts

ADVANTAGES OF AUTOMATING HEDGING

- Reduced reliance on individuals with expert knowledge
- Visualizations of daily indicators of financial metrics against company risk policies
- Streamlined exposure collection and forecasting
- Simplified hedge accounting and compliance
- Shortened workflows and all critical data in one place

45%

OF TREASURERS CITED LACK OF TECHNOLOGY AS A KEY CHALLENGE IN MANAGING VOLATILE CIRCUMSTANCES

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The above advantages for both cash and financial risk management can give organizations a much-needed lift during uncertain times.

SO, WHAT'S HOLDING TREASURERS BACK?

In PwC's 2021 Global Treasury Survey, 45% of treasurers cited lack of technology as a key challenge in managing volatile circumstances. But other challenges are holding departments back from achieving this connected treasury vision: lack of budget and the need for relevant skills.

However, **the time is now for companies to invest in their treasury technology.** Although it may be challenging to secure a budget if your company is expecting a top-line slowdown, this can be overcome by tying the business case not just to treasury objectives, but business-wide objectives, such as improved investment yields or cash conversion enabling market entry or avoiding layoffs. Also, increasing technology access can also be achieved with managed service solutions that can reduce costs overall.

Before making the jump to a new treasury technology, there are a few key factors to consider. First, you should evaluate the number of systems, banks and data sources that need to be integrated. It's also necessary to take stock of your budget, IT resources and what technologies are already being used. Finally, you should honestly assess your team's overall willingness to change.

Once you've evaluated your needs, you'll want to do some research into what technologies are available to automate your treasury function and streamline your team's workflow. The ideal solution should make your day-to-day easier without overwhelming your team with features they don't need. For example, smaller, emerging treasury teams often work in spreadsheet software like Microsoft Excel. It's a simple tool that is highly customizable, inexpensive and easy to pick up. However, Excel spreadsheets also require regular manual updating, which makes them tedious, insecure and prone to errors. To improve the day-to-day workflow for a team that uses Excel, you should prioritize finding a solution that offers real-time reporting and other automated processes while still being easy to navigate.

For example, outdated (or missing) technology and subsequent data quality issues will make it more difficult for treasurers to create accurate forecasts and make better decisions for the entire company. And financial risk from interest rates, foreign exchange or commodity price fluctuations only threatens to dampen the financial health of companies even more. By positioning these treasury functions in context with the big picture of business operations, you can make the case for technology investment in your organization.

Ultimately, technology helps you avoid the effects of volatility—while bolstering productivity, driving growth and staying ahead of your competition. Key areas of technology on the forefront in Treasury include:

- Advance forecasting utilizing data that exists throughout the enterprise (Enterprise Resource Planning, FP&A, and Treasury Management System) can centralize into a robust technology platform to perform drill down predictive analysis and scenario planner

- Replacing traditional communication methods with API's for bank reporting, managing connectivity with other portals and fintech providers

- Business intelligence combined with data lakes which provide additional insights to aid decision making and are refreshed multiple times (even within a day). Examples include historical data analysis and dissection, interactive dashboards, tables and graphs and and key performance indicators (KPIs) incorporated into business intelligence (BI).

Treasurers are on the frontlines of managing volatility for their organizations.

By mitigating cash flow process and communication challenges, preventing unnecessary borrowing costs and managing earnings volatility, treasurers can help their companies travel through uncertain times with greater confidence.

And the way to do this is by increased leveraging of the technological advancements today's world has to offer. Enhancing automation and analytics across the cash, financial risk and working capital management functions is how treasurers can make certain they have the right insights at the right time to react to downturns and volatility.

You are leading the charge in preparing your company for volatility. **Do you have what you need?**

About GTreasury

GTreasury believes there is opportunity in complexity. We connect treasury and finance teams with industry-leading experts, technology solutions and untapped possibility. By simplifying complexity, teams can unleash their organization's potential to gain strategic advantages and grow. GTreasury helps organizations reach that potential by connecting treasury and digital finance operations through a world-class SaaS treasury and risk management platform and integrated ecosystem where cash, debt, investments, and exposures are seamlessly managed within the office of the CFO. GTreasury delivers intelligent insights, while connecting financial value chains and extending workflows to third-party systems, exchanges, portals, and services. Headquartered in Chicago, with locations serving EMEA (London) and APAC (Sydney and Manila), GTreasury's global community includes more than 800 customers and 30+ industries reaching 160+ countries worldwide. Visit GTreasury.com

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