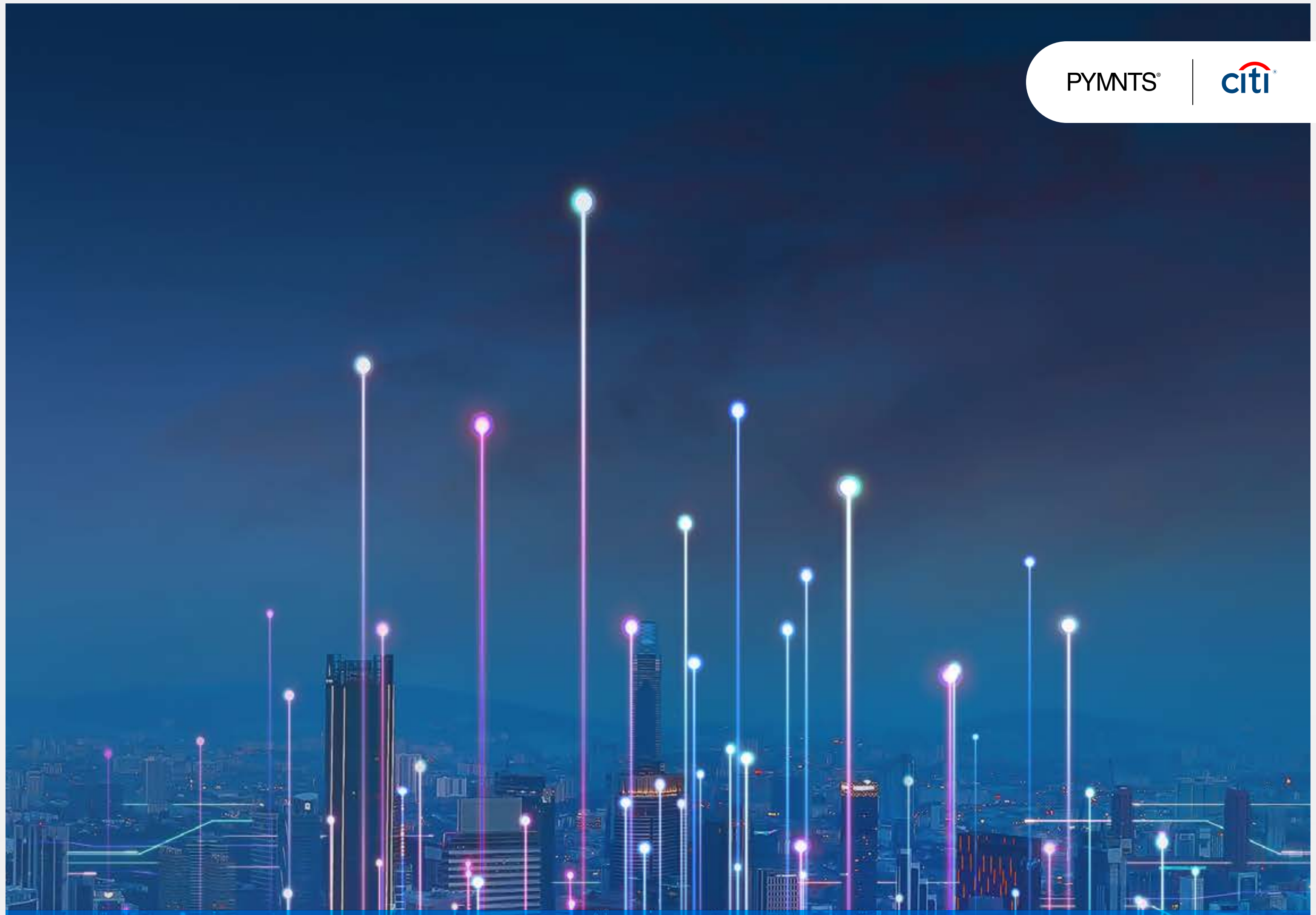
The Treasury Management Playbook: Mitigating Risks and Maintaining Liquidity in Times of Change, a PYMNTS and Citi collaboration, examines the challenges merchants and FIs face as they attempt to meet consumer expectations for seamless payments while managing security, compliance and product performance requirements in a competitive global marketplace.



THE TREASURY MANAGEMENT PLAYBOOK

Mitigating Risks and Maintaining Liquidity in Times of Change

JUNE 2023

TABLE OF CONTENTS

THE TREASURY MANAGEMENT PLAYBOOK

PYMNTS | citi

The Treasury Management Playbook: Mitigating Risks and Maintaining Liquidity in Times of Change was produced in collaboration with Citi, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

To manage a balance sheet is to protect the heart of any company, and doing so effectively is never more critical than when the economic environment is in flux. Despite the many tools available to treasurers and CFOs, much remains out of their control, with irregular inflation, a heightened cost of capital, technological advancements and transformative regulations — including a particularly active Federal Reserve — merely starting points on a list that seems to grow more dizzying by the day.

Liquidity is the name of the game right now, and all types of entities are contemplating how to best manage it. For example, many FinTechs and startups have had to cope with a lack of it as investors tighten purse strings following a series of bank failures. On the other hand, banks and other financial institutions have it and have been tasked with discovering the best ways to optimize or grow it.

One thing that has stayed the same throughout all this tumult is the essential strategic importance of a strong treasury operation, as through managing a healthy balance sheet, treasurers set the tone for any organization and give it the flexibility to withstand the world's twists and turns. The highly dynamic nature of modern business, in which many organizations manage accounts across multiple business lines in numerous countries with various currencies, complicates this vital work further, as domino effects can quickly spiral out of control.

This means that understanding the rapidly changing environment and trends across treasury management — as well as how technologies, regulations and the industry at large are likely to evolve — has become table stakes. The best CFOs and treasury operations will not just survive but also pull the right levers to redefine success in a dynamic world.

The first edition of The Treasury Management Playbook series, a collaboration with Citi, explores the ramifications of a new environment where liquidity is king. Mitigating Risks and Maintaining Liquidity in Times of Change also details how treasury operations can build and maintain organizations prepared for anything.

The state of treasury operations in 2023 and beyond

One of the most challenging aspects of maintaining successful treasury operations is that the rules of the game seem to be constantly changing. Workforces are more remote, the cost of capital has skyrocketed and developing technologies — including more familiar tools like automation and enigmatic newcomers such as generative AI — threaten to upend the status quo before it can fully settle.[1] To gain a clear picture of the nuances of treasury operations as they stand today, PYMNTS spoke to Ron Chakravarti, global head of client advisory, treasury and trade solutions at Citi.

For one thing, modern treasury is an interconnected process. International teams need to be empowered to perform the treasury acts local to their time zones but are also in lockstep with global policies and processes, Chakravarti said. “You need to have a philosophy of centralization,” he noted, identifying this philosophy as a fundamental that must be in place. Such a structure can help large enterprise organizations properly analyze and react to changing variables in real time.

1 Generative AI is artificial intelligence that synthesizes and builds upon recognizable patterns and structures to generate new material; major public-facing examples include AI tools that “author” visual art, music or text from written prompts that often reference past works or artistic movements.

“If I have all of the data about all of my suppliers around the world that I’m paying instead of region by region, country by country and episodically, I can really think about where they are in terms of their resilience and sustainability and what I am going to do about it: Everything from who do I work with as partners, through to the pricing that they’re charging me, through to how can I support them in various ways through various sustainability programs. All of those things,” he said.

This highlights the reality of effective treasury in a time of change: Visibility is key.

Keeping it real-time

In addition to a strong, centralized approach, one of the smartest things a large enterprise organization can do is grant its leadership the most unrestricted view possible into its finances and ensure real-time visibility.

“The first task for all companies is to get real-time visibility,” said Chakravarti. “You need to prepare for this. The first step is visibility. And this is where having a strong [application programming interface] strategy starting to look at the systems you have in place within the company and what is going to be the path to taking them to real time.”

The current leaders in this space, he says, grew strong because they instituted strong visibility using the tools available to them at the time, granting them improved liquidity. The improved visibility that today’s tools offer can put savvy organizations in a better position — one that may be particularly valuable given recent economic tightness.

“When you’ve had the steepest increase in the cost of capital in 40 years, as we’ve seen, then all of these things — the cost of inefficiency and the risks of a lack of visibility — become important. They were [always important, but] they weren’t sort of crystallized that way,” he said.

Another reason that real-time visibility should be a priority for treasurers is the prevalence of real-time payments. Although their specific impact differs by industry, according to Chakravarti, companies across the board are recognizing the importance of managing in real time, and the reality of evolving cash management practices is that seemingly all firms are being pushed toward systems that are more adept at coping with real-time data and strategies.

“Finance and banking services are moving to real time,” he said.

Adopting versus adapting

One barometer of success for treasury operations today involves being proactive, Chakravarti explained. This can be hamstrung by insufficient technology for firms that lack data savviness — tools that can include treasury management systems and enterprise resource planning systems.

“Often the biggest challenge [to enabling real-time visibility] is the internal infrastructure and not so much just the system budget, but the resources to start making those changes,” he noted.

Proactively allocating these resources can make a difference.

“What we want to do is to have the business, as it expands and as it grows, adopt the principles that you put in place [so] treasury builds up the infrastructure to support you rather than having treasury constantly running behind, adapting,” he said. “Adopt rather than adapt.”

According to Chakravarti, this question is on the mind of many treasurers he speaks to. He explained that treasurers often describe how they operate a technology stack and are always looking to stay current. Still, many ask, “If I were to not just sign off on the most recent upgrade that I need to do, but if I look three years ahead or five years ahead, what should I be thinking about? How do I plan for that? How do I put in place a technology architecture that is right for the time?”

Embedded in those common questions is an important note: The tech stack that is right for the time is not simply up to date for now but also must be able to tackle the concerns and challenges of the coming years.

Ultimately, he said, “One of the things that treasury teams need to be doing — and we all need to be doing — is to get much more savvy about technology and data.”

A holistic enterprise

Chakravarti used the example of risk management to highlight how the world has changed in the past few years. He said that risk management has historically been about silos of risk — foreign exchange risk or disaster recovery, or the risk of dried-up capital markets — but is now more holistic, perhaps due to the sheer volume of interrelated changes firms have faced.

"The world is … let's just say a more challenging place overall. It's not just about the cost of capital. There are more surprises happening than perhaps we might have thought pre-COVID-19 [and] the surprises seem to happen faster and faster," he said.

Treasurers have gained value within organizations for their ability to assist in holistic decision-making, according to Chakravarti.

"There is a real opportunity for treasury. The value that they were creating became very important when we were in the full flux of COVID-19 — the crisis then, in terms of company cash flow and [the resulting] pivot," he said, explaining that treasurers gained credibility and have a better ability to show why they have a plan, why their plan requires investment in people and technology resources and why those adopted changes are essential.

"I think it would be a real loss not to use that; that credibility that's been in there. And I think that's the real opportunity."

Treasury operations have never been simple, exactly, but because treasurers have been battle-tested through these waves of uncertainty, their viewpoints matter and they should not be made powerless or held back due to previously held expectations of the limitations of the role.

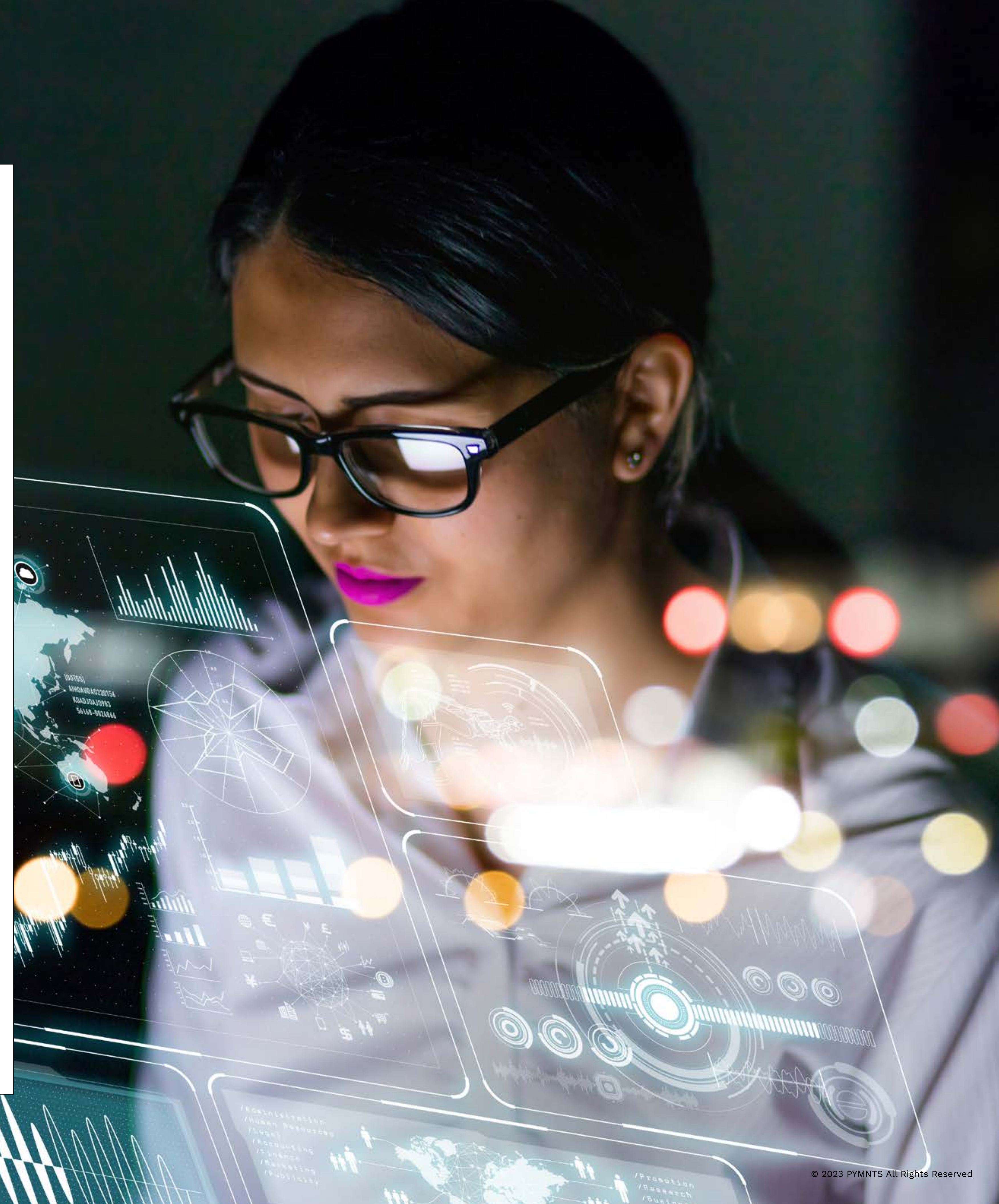
"The treasury team and the group treasurer need to be enabled with the budget, the technology and, ultimately, the organizational backing to do some of the changes that sometimes are very hard to do," he said.

Looking ahead

Ultimately, Chakravarti described the modern treasurer as a kind of truthteller who is rightfully gaining importance in more holistic decision-making. Their perspectives — powered by real-time visibility and technology stacks that can tackle the problems of the near future — are or should be critical to firms that want to take the best courses of action.

"[The] treasury's job is to make sure there is full understanding and accountability for the risks that are being taken," he said. "The role of the treasury is not in making the ultimate decision, of course, but in bringing the perspective by identifying the economic costs of doing something … and making sure that those economic costs are understood."

In a world in which seemingly everything is growing more costly by the second, these experts are likely only to prove more invaluable as the world throws curveball after curveball.



LIQUIDITY MANAGEMENT

THE TREASURY MANAGEMENT PLAYBOOK

Managing liquidity through cash forecasts

Effective liquidity management hinges on anticipating a company's future cash inflows and outflows through cash forecasts. These forecasts serve as the cornerstone of a liquidity strategy, with treasurers often projecting several timelines ahead, ideally optimizing liquidity.

No treasurer has a crystal ball or time machine, but organizations can provide the next-best thing: real-time data. Offering treasurers as much visibility as possible raises their odds of interpreting the nuances of the current picture and correctly guessing what is on the horizon. Although some firms may be tempted to hang on to older tools that technically still function, enough has changed and continues to change, so that proactive resource expenditure may prove to be a far better strategy, especially given the importance of forecasting tools that project weekly liquidity. Factors likely to be considered before choosing a forecasting solution include the sophistication and capabilities of internal data teams, time frame for implementation and development of the current forecasting process.[2]

2 Lew, M, et al. Liquidity management during economic uncertainty: Choosing a forecasting solution. Deloitte. 2023. https://www2.deloitte.com/us/en/pages/advisory/articles/cash-flow-forecasting.html. Accessed June 2023.

The benefits of cash flow forecasting

Forecasting cash flow is a beneficial practice that allows businesses to anticipate their financial performance in the future. By forecasting income and expenditures, management can make informed decisions that improve the company's financial position.

Some advantages of cash flow forecasting include:

- Insight into the company's financial position and performance
- Allowing management to take action to improve the company's finances
- Help to plan for capital expenditures and major procurement
- Facilitate tracking of receivables and payments to suppliers
- Enable scenario analysis and planning for potential future expenses and revenue streams
- Assist with decision-making regarding investment opportunities and business expansion when there is surplus cash

Cash flow projections also enable organizations to identify potential weaknesses in a given credit situation and act to course correct or protect monetary exposure. Having a solid cash flow plan in place increases employee and board member confidence and makes it easier to evaluate using metrics, making identifying potential cash flow problems simpler and faster to manage. The best cash flow forecast duration is flexible and allows treasury operations to keep up to date with the business's cash flow statement.[3]

3 G, Anugraha. What Is Forecasting Cash Flow? WallStreetMojo. 2023. https://www.wallstreetmojo.com/forecasting-cash-flow/. Accessed June 2023.

Proper management of liquidity sources contributes to organizational resiliency during more challenging times while sustaining corporate value through growth. Liquidity management is helped by an ecosystem of banks, financial data suppliers, marketplaces and FinTechs, with different timelines for long-term financial transactions, short-term cash operations and strategic planning through financial planning and analysis (FP&A). FP&A helps treasurers integrate monthly figures from the treasury department into a centralized view of the organization's most updated and reliable liquidity profile, which can be essential for ensuring the fiscal liquidity of an enterprise organization.

An enterprise liquidity management platform has three layers:

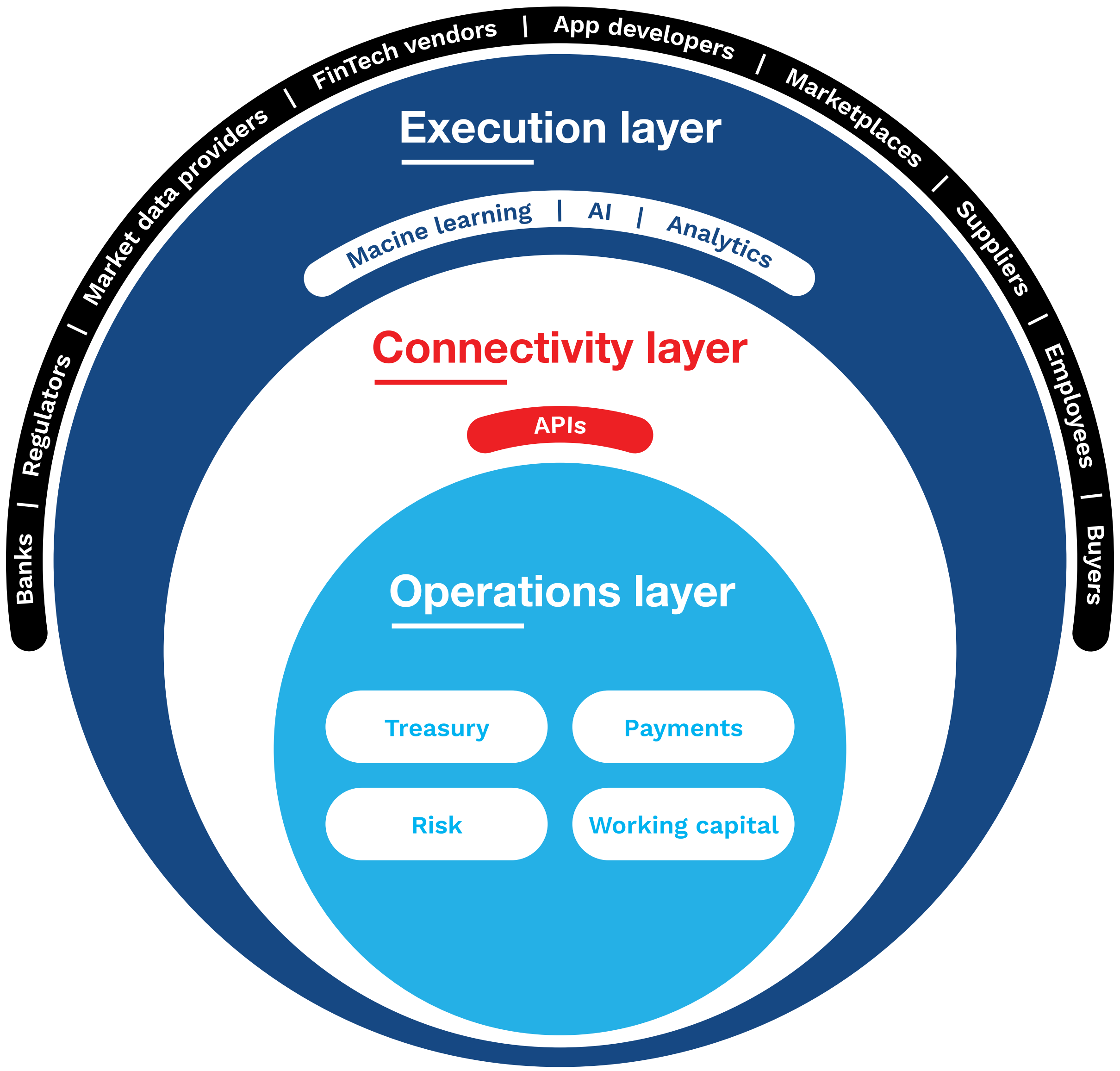
- **The operations layer**, which runs treasury, payments, risk management and working capital optimization.
- **The connectivity layer**, which connects the system to the world through application programming interfaces (APIs).
- **The execution layer**, which analyzes data, leverages artificial intelligence (AI) for decision support and executes directly from the corporate treasurer's enterprise system.[4]

4 Camerinelli, E. Enterprise Liquidity Management. Aite-Novarica Group. 2021. https://www.kyriba.com/wp-content/files_live/content/aite-novarica-elm-whitepaper.pdf. Accessed June 2023.

Figure 1

THE LAYERS OF AN ENTERPRISE LIQUIDITY MANAGEMENT PLATFORM

Using a platform to measure and ensure enterprise liquidity management is often a good idea.



Source: Camerinelli, E. Enterprise Liquidity Management. Aite-Novarica Group. 2021. https://www.kyriba.com/wp-content/files_live/content/aite-novarica-elm-whitepaper.pdf. Accessed June 2023.

Digital transformation of the treasury

One advantage of working during such a time of change is that treasurers also have access to rapid advancements in technology, and they are often eager to adopt these helpful tools. Automated systems, sophisticated analytics and advanced data visualization tools provide treasury teams with powerful resources, but the benefits of digital transformation require a holistic approach, with a gradual and iterative adoption of the necessary technological advancements.

There are several areas where integrating technology can provide valuable support for corporate treasuries:

Cash forecasting and reconciliation

AI can automate the creation of forecasts. Meanwhile, rule-based engines can automate the reconciliation process, freeing up treasurers' time to focus on strategic thinking.

Bank connectivity automation

Treasury management systems offer various alternatives for bank connectivity. Thanks to automation and APIs, newer systems ensure quick and efficient bank communication.

Payment processing

Payment processing systems allow finance and treasury teams to work together on complex problems, leaving routine forecasts and payments processing to be handled automatically.

Real-time reporting

Using an integrated data framework with APIs and analytics tools to generate real-time reports can help centralize data and streamline reporting processes.

Corporate treasury teams can now use powerful new digital tools such as automation, advanced analytics and visually engaging data displays. However, it is critical to understand that digital transformation is an ongoing process that involves much more than just embracing technology. Organizations must take a comprehensive approach and fully integrate digital transformation into their fiscal operations to fully reap the benefits of these initiatives.

A few areas organizations should consider as prime candidates for digital transformation include:

- Cash forecasting and reconciliation
- Bank connectivity automation
- Payment processing
- Dashboards and visualizations
- Real-time reporting[5]

5 Author unknown. Digital Transformation in Corporate Treasury — Opportunities, Challenges and Benefits. Deloitte. 2022. https://www2.deloitte.com/xe/en/pages/risk/articles/digital-transformation-in-corporate-treasury.html. Accessed June 2023.

MEASURING SUCCESS IN A DYNAMIC WORLD

THE TREASURY MANAGEMENT PLAYBOOK

Moving beyond metrics

In the past, performance metrics were a straightforward way to assess treasury operations' effectiveness. They are still helpful, and performance metrics companies commonly use to assess fiscal solvency include:

- Cash concentration levels
- Working capital costs
- Liquidity and investment performance
- Levels of similarity between performance and forecast

These metrics may only determine where a company is now, however. The most adept treasurers can consider themselves successful if they use the metrics to look years ahead and have reason to believe that success will hold. Individual metrics are snapshots, but the whole picture is of most value to firms, which includes more than the present moment.

This is not to say that metrics are not worth tracking, but instead, a recognition of how treasury has evolved. Modern problems and solutions are too complicated and interconnected for anything short of a holistic viewpoint to capture truly. Metrics are a part, not a whole, of the story, and both treasurers and the stakeholders they work with should keep this in mind.

Checklist:

Valuable data categories

Efficient data collection is essential for treasurers to obtain information accurately. For the best decision-making, key performance indicators (KPIs) must be straightforward and easily understood by all stakeholders. While every treasury operation is different, cash management, funding, risk management and cash flow forecasting are four primary areas that should serve as a foundation for treasury KPIs in any organization.

Cash management

Effective cash management is critical to organizational success, as cash is the lifeblood of virtually any business. Cash can be classified into three categories: operating cash for daily operations, reserve cash for unforeseen events and strategic cash for long-term growth plans. Monitoring this ensures financial solvency and the ability to pay bills.

Funding

Quantitative KPIs can showcase metrics such as the number of days in overdraft and the corresponding interest expenses. In contrast, qualitative KPIs focus on how funding activities align with a company's business objectives by promptly delivering the most advantageous funding solutions.

Risk management

Treasurers can establish KPIs for risk management to assess the success of fiscal activities. The value of a hedge compared to the underlying exposure and the gains and losses of hedges are useful metrics for evaluating treasury risk management performance. Treasurers can also implement KPIs to gauge the level of booked, firmly committed, forecasted and contractual exposures, as well as hedge ratios against predefined targets based on approved policy.

Cash flow forecasting

It is also worth noting treasurers can establish KPIs to track the difference between actual cash and projected cash, similar to comparing a company's cash to assets and cash to sales ratios with those of their industry peers.

Treasurers can implement KPIs to assess and compare the amount of cash an organization possesses and determine whether the funds are available or tied up. These performance indicators can also aid treasuries in measuring cash balances across various banks, business units and countries.

Treasurers have had to recognize the significance of management reporting, maintaining and referring to KPIs as essential factors for success in the current business environment. These tools promote progress toward business objectives, evaluate and quantify value and give leadership the ability to communicate these achievements to important stakeholders.[6]

6 Liu-Lindberg, A. How to Measure Success in the Modern Treasury Function. LinkedIn. 2021 https://www.linkedin.com/pulse/how-measure-success-modern-treasury-function-anders-liu-lindberg/. Accessed June 2023.

CONCLUSION

Financial tools and technologies allow organizations to do more and take a more prominent organizational role than ever before. Implementing financial analysis software, automation software, digital payment systems and other tools can help organizations reduce costs, increase revenue, improve cash flow management and manage financial risks. These tools and technologies can provide real-time visibility into financial data, automate financial reporting and provide data analytics capabilities — all vital tools that speak to the treasurer's enhanced role in decision-making. Ultimately, by leveraging financial tools and technologies, organizations can improve their metrics and become more efficient, effective and competitive, helping the entire organization establish and maintain fiscal solvency and stability.

ABOUT

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

Citi's mission is to serve as a trusted partner to our clients by responsibly providing financial services that enable growth and economic progress. Our core activities are safeguarding assets, lending money, making payments and accessing the capital markets on behalf of our clients. We have 200 years of experience helping our clients meet the world's toughest challenges and embrace its greatest opportunities. We are Citi, the global bank — an institution connecting millions of people across hundreds of countries and cities.

We are interested in your feedback on this report. If you have questions, comments or would like to subscribe, please email us at feedback@pymnts.com.