

ACE-ing digital transformation efforts in corporate treasury:

Opportunities, challenges, and benefits



To catch up with the rapidly growing demands of the way modern corporate treasuries work, organizations need to 'ACE' the competition. Deloitte defines the ACE approach as:

-  **A: Automation**
-  **C: Centralization**
-  **E: Efficiency**

This approach will empower corporate treasury departments to ACE their transformation efforts and achieve sustained growth.

What does corporate treasury do?

Corporate treasury's role is about managing the cash, liquidity, and financial risks in a business. This involves making sure a business has the capital it needs to manage its day-to-day business obligations, while helping develop its long-term financial strategy and policies. Payments, debt and investment, cash balances reporting, and trade financing, are some of the ambits where modern-day corporate treasury works.

How do we define digital transformation?

There is no unique way to define the digital transformation process. Each corporate has its unique outlook and processes with significant variations in structure. Therefore, we can say that treasury digital transformation will look slightly different for every corporate. However, we can still deduce a common definition, which is the adoption of new and emerging technologies into the business to produce operational and financial efficiencies, centralize the overall reporting, and automate processes.

Digital transformation and corporate treasury

In today's world, thanks to the rapid developments in products and solutions, there is an expectation that corporate treasuries will adopt technology transformation. Automation, sophisticated analytics, and rich data visualizations, are putting powerful new tools in the hands of corporate treasury teams.

Why embark on digital transformation?

Some of the factors that should drive corporate treasuries towards digitization include:

Efficient processes

Nowadays, the role corporate treasurers play is quite intensive. From maintaining bank accounts to generating accounting entries, many processes need to be performed. And it is of utmost importance for corporate treasurers to make operational processes efficient in less time at a reduced cost, with improved compliance, and more regulatory insight.

Competitive advantage

In the fast-paced corporate environment, companies are continually seeking a competitive edge over their direct competitors and peers. The early adoption of transformation technologies will likely lead to advantages over the competition. For example, implementing a payment hub and centralizing payment approval workflows will minimize the invoice to approval process and will produce a reduction in the payment turnaround time. This will make the company attractive to the top suppliers and eventually will allow it to utilize this strength for better price negotiations.

Regulatory pressures

The continually changing regulatory landscape continues to affect business reporting requirements across corporations, specifically for those using complex financial instruments. Not keeping up-to-date in these areas can increase the risk of becoming non-compliant.

Expanding role of corporate treasury

Modern corporate treasury has evolved rapidly, with many new responsibilities and functions now under its domain, such as supply chain financing, funds transfer pricing (FTP), etc. To cope with these expanding realms, it has become imperative for treasury heads to embrace the tools and technologies that cater to broader treasury needs.



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Avenues of transformation

Cash forecasting and reconciliation

Forecasting is an important task that treasurers must perform. The cash reconciliation with forecast enables the treasury to have visibility of cash on hand rather than bank balances and gives them an accurate visibility to deploy cash more efficiently. Any tools that can create forecasts based on predictive analysis will help treasurers enormously. Artificial intelligence can be used to automate the creation of forecasts. For example, repetitive transactions, such as payments of wages, rent, or bills, can be read by the system from past transactions and used to emulate forecasts automatically.

Another important process that treasurers must perform is matching created forecasts with bank statements or cash forecast reconciliation. Rule-based engines can help automate the reconciliation process, hence freeing up treasurers' time to think more strategically.

Automation of bank connectivity

Fetching bank statements is probably the first activity of the day for a typical corporate treasurer. Yet, downloading statements and gathering a bank balance report is a mundane and laborious task. Automating this process would save immense time from the treasurer's daily tasks while improving the accuracy of information.

All treasury management systems (TMS) offer various alternatives for bank connectivity, ranging from H2H to SWIFT, SFTP, and more. Besides this, there are new systems providing out-of-the-box connectivity and the development of comprehensive application programming interfaces (APIs) that ensure quick, efficient, and automated bank communication.

Payment processing

Corporate treasuries have to deal with varying payment banks and formats along with keeping the payments compliant. Specifically, the emphasis on identifying and curbing fraudulent payments in time has increased manifold. Modern-day treasuries need to have a system (Payments Hub) that can have rule-based screening engines able to detect fraudulent payments as they happen. These systems should have approval workflows that will enable them to have more centralization, control, and visibility.

Replacing excel-based activities

As the future unfolds, data in spreadsheets will be replaced by visually rich information that is intuitively accessible and easy to use. Higher-value work requires cross-functional collaboration among businesspeople, technology teams, and finance strategists. Integration between systems will be essential.

Real time reporting

Corporate treasurers would do well to start to work on an integrated data framework and use analytics tools to generate real time reports. Application programming interface (API) connectivity is a new trend as well, and while using it the data can be centralized, and real time reports can be generated.²

Obstacles and challenges

Change resistance

Change can be uncomfortable. Even if it sets us up for a great future, most people take time to adapt. And one of the greatest reasons that cause employees to consciously or unconsciously resist change is the fear that new technologies will threaten their jobs.

This disillusionment may occur due to some lack on the organization's part; for example, a lack of appropriate training around the new system or process, or an absence of the change management strategy being cascaded to employees, etc.

Misunderstanding customers' needs

Failure to properly gauge customers' needs is one of the mistakes fintech professionals appear to be making in the process of selling their products. Vendors need to ask whether or not their solution will fundamentally enhance their potential client's processes.

Transformation strategy

One of the challenges that organizations face in the digital transformation journey is moving without any strategy. Organizations generally miss out on asking crucial questions regarding their motivation for transformation. For example, what is the motivation for replacing legacy systems and manual processes with new systems? Does an organization have the capability (in terms of resources and budget) to implement advanced and complex systems? ➤

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Organizational agility

Organizational agility defines the ability of an organization to adapt, change, and succeed in a rapidly changing environment.

Organization agility is a huge phenomenon that impacts the company's decision on whether to move or not towards digital transformation. Changes begin at the level of top management and then this vision is cascaded down through a commitment to and the adoption of development and transformation.

Cyber security

Organizations rely on vendors (third parties) such as cloud providers, robotics, and process automation, to power these initiatives. These third-party systems can greatly enhance digital businesses, but they also pose new risks to the company as well. An organization's IT department is more careful, to the extent of being nervous in the adoption of these technologies, being aware of the risk that if a system breach or technology failure occurs, it can result in financial loss, disruption, or damage to a corporate reputation.

Data Integrity – Cloud-Hosting

When it comes to cloud-based solutions, the hosting location can also be an obstacle to embracing this technology. In some jurisdictions, corporates such as government entities or telecom companies have no desire for their data to be located beyond their geographic borders.

The roadmap to a digital treasury

- It is important to build an internal culture that accepts change, and which always questions the norm, without any barriers in terms of communicating ideas and feedback to top-level management.
- During any hiring process, it is important to ensure potential candidates are interested in technology and demonstrate clear adaptability to new systems.
- Appointing a digital champion, or chief technology officer (CTO), is an important consideration. By design, this role is meant to be involved in other people's business — and therefore it's almost inevitable that this leader will come into conflict with other organizational groups.
- The need for the organization to define a clear vision and strategy for change is of utmost importance. For this, the organization's decision-makers need to clearly know what needs to change, and what the resulting benefits for the company, employees, and customers will look like.
- When it comes to determining where to start your digital efforts, a scalable approach can be adopted. For example, think of the smallest and simplest process to transform and ascend from there towards more complex processes. A convincing business case should also be prepared.
- While executives cascade their vision of the future downwards through the organization, there should remain room for employees to build upon ideas, with culture of encouragement created.

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Modern corporate treasury needs to ensure that a business has the capital it needs to manage its day-to-day business obligations, while helping develop its long-term financial strategy. In today's world, thanks to the rapid developments in products and solutions, there is an expectation that corporate treasuries will adopt technology transformation to achieve these goals. However, it's not as smooth of a ride as one would like; there are some of the obstacles that hinder growth towards digitally transformed treasury. To tackle these obstacles, the need for the organization to define a clear vision and strategy for change is of utmost importance.

Digital transformation is a journey that extends beyond the mere adoption of technology. To achieve the full gains from transformation efforts, an organization needs to take a more holistic view and adopt an incremental development of its digital transformation regime. ●

By **Steve Punch**, Partner and **Syed Sohaib Moid**, Director, Risks Advisory, Deloitte Middle East

Endnotes

1. <https://www.treasurers.org/hub/careers/what-is-treasury>.
2. <https://www2.deloitte.com/us/en/pages/finance-transformation/articles/finance-digital-transformation-for-cfos.html>.
3. <https://www.accountingtoday.com/opinion/how-finance-can-use-digital-transformation-to-inform-business-strategy>.

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