



How Are Corporate Treasurers and Banks Working Together?

Matt Chan, webMethods - 03 Apr 2006

Corporates are constantly putting pressure on banks to lower fees on commoditised treasury products, while accepting higher rates for bespoke solutions, showing that the relationship between corporates and their banks is more symbiotic than many think. This article looks at how both parties can benefit.

The Needs of Corporate Treasury

The role of the treasurer has become increasingly complex with a broad array of responsibilities that span liquidity, working capital and enterprise risk management. Compounding this pressure is the constant drive to do more with fewer resources and the demand to meet more stringent compliance requirements, such as Sarbanes-Oxley. To succeed in all of these responsibilities, corporate treasurers want their wholesale banks to:

- Reduce transaction fees
- Speed up payments processing
- Help with regulatory compliance
- Guarantee service levels
- Provide improved cash flow forecasting and working capital management

Consequently, forward-thinking banks have made significant investments and created service offerings to capture the value created by these needs. One area of investment is business process management (BPM). Banks are notorious for their silo operations with fragmented, manual, and redundant processing steps. With BPM technology, the bank can automate and orchestrate complex business processes within and across silos to speed up operations and improve efficiency, which ultimately drive down costs. By achieving a lower cost structure, the bank can pass the benefits to its corporate customers in the form of lower fees, faster processing and later cut-off times.

Another way banks can help their corporate customers is to expand their scope of straight-through processing (STP). Most banks consider STP within the confines of their four walls. When asked, corporate treasurers define true STP as only when transactions can flow directly from their ERP systems to the banks' core systems without any human intervention. By developing standards-based interfaces with ERP systems, banks not only extend the efficiency benefits to their customers but also remove human intervention that can expose the corporate treasury to fraud and compliance risks.

A further area of investment that banks can make is in real-time monitoring. To meet the treasurer's demand for service level agreements, the bank needs real-time, end-to-end visibility of the transactions flowing through its organization. The leading monitoring tools offer both system and business-level visibility. By providing the bank with visibility into which business process is affected when a system failure occurs, it can take immediate action to manage the business risks associated with this system event and, therefore, is more likely to meet its customer commitments. These corrective actions could be as simple as manually processing the critical transactions before they negatively affect the customers.

Besides helping banks meet service commitments to their customers, real-time visibility allows the bank to create sophisticated information aggregation and analysis tools that better support complex cash flow forecasts and working capital strategies of the corporate treasurers. These tools form the foundation of new service offerings and revenue streams for the bank as well.

The Needs of Wholesale Banks

With a slow economy and the rise of non-traditional competitors, the business of wholesale banking has certainly been tough during the past six years. The consolidation of the industry also adds to the pressures on banks. The remaining big players are fiercely vying to win a larger piece of the pie. To succeed in this competitive environment, banks are looking for:

- Lower operating costs
- Additional fee-based revenues
- Deeper, more valuable customer relationships

As stated earlier, corporate treasurers and their banks do not have a one-way relationship. Instead, corporate treasurers are willing to take certain actions that are mutually beneficial to the banks as well. For example, corporate treasurers have embraced the self-service concept of cash management. Treasurers actually value the ability to query the bank's systems to answer their own questions because it streamlines the workflow and cycle time required. In turn, the bank can cut costs by reducing the overhead of a large customer service organization while getting the residual goodwill from the treasurers by offering the self-service experience. Giving treasurers the opportunity to serve themselves creates a win-win scenario for both parties.

It is true that corporate treasurers are constantly pressuring banks to lower fees, but only for commoditised treasury services. On the other hand, if the banks are able to offer services that are truly strategic to the customers, they find that corporate treasurers are willing to pay more. For example, corporate treasurers are always seeking better ways to manage their working capital. They seek out banks that can offer services, such as discount management whereby the bank helps to reconcile the competing demands for lower DSO (days sales outstanding) on the supplier side and higher DPO (day's payables outstanding) on the buyer side. This type of service is certainly strategic to the customers and warrants a premium fee.

Finally, many multinational corporations (MNCs) are finding it very costly and inefficient to maintain numerous banking relationships for their operating entities across the globe. Instead, these MNCs are centralizing their corporate treasury functions and creating corporate payment factories. As a result, these MNCs are looking for fewer but more strategic banking relationships. They want to extend their banking relationship into true partnerships whereby the banks' financial supply chain becomes an integral part of their overall business supply chain. In turn, the banks benefit by creating deeper and more profitable relationships with corporate customers.

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