Treasury's digital transformation

New digital tools hold the key to unlocking operational efficiencies without over-burdening treasurers, says *Alfredo Bresciani*, head of trade finance international sales at UniCredit.

Today's liquid market may have changed priorities for corporates, but working capital optimisation – ensuring that assets are not idle and risks are contained – remains a vital task. Despite this, firms may be reluctant to take action for fear of over-working their treasury departments.

It's a mistake they needn't make, however, since new digital tools can now facilitate quicker and simpler execution of key techniques. Beyond this, digital innovations can bring further benefits, through efficient account management, strategic insights, and fast, secure settlement.

With the guidance of banks, treasurers can select the tools they need – empowering them to make considerable strides in every area, all while shrinking their workload.

Putting capital to work

Certainly, there is plenty of scope for corporates to improve their financial performance – with a number of techniques available to help them to craft an impressive balance sheet. For instance, inventory management – the sale of unwanted goods and materials – continues to be an under-utilised discipline. Yet its potential to liberate trapped liquidity can transform balance sheets for the better.

Meanwhile, receivables finance – the sale of accounts receivable – not only enables firms to mobilise idle assets, but also helps to mitigate payment risks.

The workload problem

Yet companies that would implement these techniques may well be deterred by the extra work this will create for their treasury departments. Treasurers, as the natural leader of such initiatives, would need to co-ordinate between procurement, finance and sales departments, all while dealing with the growing number of invoices generated by the extra transactions.

This, of course, comes on top of their existing duties, as well as their expanding strategic role in the corporate world. Forward-looking firms will therefore be looking to find a way of executing working capital optimisation techniques while minimising the burden on treasurers.

The answer lies in new digital innovations. Not only can digital technology resolve the difficulties of executing working capital optimisation techniques, they can generate dramatic improvements in efficiency throughout the treasury.

Fluid account management

In particular, virtual accounts offer huge scope for simplifying everyday treasury tasks. These enable corporates to rationalise their disparate bank accounts into a single, digital account which can then be divided internally into separate "virtual" accounts to accommodate firms' corporate structures.

The administrative advantages of this are many. For instance, it enables firms to automate their supplier onboarding and book-keeping processes – drastically shrinking the amount of work created by new invoices and transactions. The impact on treasurers' schedules will be felt immediately – freeing their time for more high-level strategic decisions.

But sparing treasurers' time is just the start with virtual accounts and other digital innovations. There are also direct benefits to liquidity and efficiency. For instance, with just a single "real" account, corporates need no longer carry out cash pooling initiatives for major investments, as cash can be funnelled painlessly and almost instantly to the departments where it's needed.

This format also affords corporates a big-picture view of their financial situation – giving them a clear idea of their risk exposures for informed strategic decisions. And this perspective does not come at the expense of granularity. Far from it – virtual accounts offer a plentiful source of detailed information on every facet of a firm's transactions. With the help of digital platforms, this data can be shared quickly and simply with other parties – a big advantage for departments collaborating on working capital optimisation programmes.

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A strategic insight

Furthermore, with data storage and processing capacities having undergone remarkable growth in recent years, data is becoming a valuable asset. And analysing this data offers a rich vein of insight that has yet to be fully tapped in the field of trade finance.

If the experience of similar projects in other fields is any indicator, the rewards could be huge. Take, for example, T-Mobile USA's big-data initiative, which sought to use customer data, billing information and social media to predict when customers were likely to move to a new service provider. Just three months after the programme was launched, the company's defection rates had already been cut in half.

Corporates that would emulate this could benefit from banks providing big-data analysis built into established payment services – offering insights based on transaction data and other relevant material. Once established, this detailed analysis can be applied to refine virtually every area of a firm's operations.

More data, less risk

Certainly, firms should not be at a loss to generate this data. Many digital tools produce significant amounts while also making valuable contributions to balance sheets. The Bank Payment Obligation (BPO) – a bank-mediated digital settlement method – is one example.

Of course, the BPO's true value lies beyond data generation. Since BPOs are mediated by banks, corporates are able to offload any payment risks associated with the transaction. It is this risk mitigating aspect that makes the BPO so important. And it's an advantage that should not be underestimated – especially given the worrying global trend towards transacting without any mitigation at all.

We estimate that, in 2014, the volume of world trade (exports) without cover against risk was at least US$13tn – approximately 70% of the total US$18.5tn traded that year. As the volume of world trade continues to grow – predominantly via open account settlement methods – this figure is set to rise further.

The BPO, however, offers a compelling means of bucking this trend. Not only does it provide invaluable cover against payment risk, it does so without sacrificing speed – processing in a maximum of seven days, compared to the average of three weeks for letters of credit.

A helping hand

A valuable tool, no doubt. But with so much going on, the choices facing corporate treasurers are almost overwhelming. Decisions are required on new strategies, new products and new challenges – and corporates shouldn't shy away from help. They can look to their partner banks to act as advisors here – guiding them through the options available and identifying the tools and techniques which suit them best.

With this guidance, treasurers can take quick, decisive and informed action to harness the tools available – spurring dramatic improvements in their firms' financial performance and bringing their spiralling workload under control.