

System selection

HOW TO GET IT RIGHT WHEN SELECTING A TREASURY MANAGEMENT SYSTEM (TMS).



Executive summary

The suppliers of treasury systems are continuously incorporating new software and technologies so it is important that any company that is seeking to implement a new or replace an old treasury management system (TMS) undertakes a thorough selection process to ensure that the technology truly meets their needs.

from specialist financial software vendors. The on going development of a custom-built solution can also prove expensive for a one-company user. Such development together with system maintenance can also become problematical as systems designers move on, potentially leaving the company at risk of being dangerously low on knowledge and support. The overall cost of ownership can, therefore, become unacceptably high.

There are various approaches that can be taken to the selection process of treasury management systems (TMS) and much depends not only upon the functionality required by the treasury operation and the technology environment in which the treasury operates but also upon the structure of the organisation and its geographical spread.

TREASURY SYSTEM OPTIONS Treasury management systems can be divided into four broad categories:

- In-house solutions.
- Single, dedicated treasury management systems.
- Best of breed system configuration.
- Treasury modules of an ERP system.

IN-HOUSE SOLUTIONS As spreadsheet applications originally met the treasury system requirements for the smaller treasury, so the in-house designed and built systems generally met the requirements of the larger, more complex treasuries. Those companies with the resources to build and to maintain such a solution were provided with a custom build that was specifically tailored to meet their own particular needs.

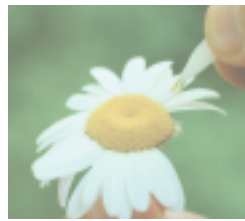
Although no longer as common, in-house built systems are still used with their declared main benefit being the high degree of specification match associated with a tailored solution. Few companies now follow this strategy, however, when setting out on a project for a new or replacement TMS. The main reasons are the enormous resource and inherent cost of specification, design and writing such a system, coupled with the increased capability of the TMS solutions

SINGLE, DEDICATED TREASURY MANAGEMENT SYSTEMS

The most common route currently taken to meet treasury software requirements is the purchase of one of the various dedicated treasury management systems provided by specialist software suppliers. Over the last 15 years or so these solutions have evolved from being relatively simple transaction management systems to becoming very powerful stand-alone treasury tools embracing a great deal of flexibility in their approach and as to how the solution is applied to particular needs. The development and enhanced application of internet technology has also introduced a highly efficient way of transmitting information and provides "straight-through processing" as a reality in real-time.

Most of these solutions are scalable for different treasury environments ranging from single-user sites to larger multi-centre treasuries, and from simple operations to those using complex instruments and strategies. As with any implementation of advanced software, the payback depends upon the investment of time in training and in working with the supplier to ensure optimum use of the software across the organisation. To calculate the true cost of the solution, one should, therefore, include such training and consulting expenditure. The TMS will need to interface with other treasury and financial software and such integration will need to be considered as a key part of the implementation project.

BEST OF BREED SYSTEM CONFIGURATION Rather than opt for a comprehensive TMS solution, some larger treasuries, and particularly those within a banking



environment where highly specialised solutions are required, elect to take individual systems for specific roles. This could, for example, comprise a front-end dealing system, a risk management system, transaction management software and a back office solution. Some or all of the systems may come from different suppliers. Although this strategy can provide the option of "best of breed" and allow for phased implementation, it raises questions with regard to complex systems integration and the need for multiple in-house systems expertise and for providing support for different platforms and associated interfaces.

TREASURY MODULES OF GROUP-WIDE ERP SYSTEMS

Several of the enterprise resource planning (ERP) system providers now include a treasury module in their product suites with the main benefit of embracing financial and other systems on the one platform. The solutions are supported through a central project office providing training and implementation, while implementation consulting services are frequently provided by the larger treasury consultants. If an ERP solution is being used for financial and other purposes across the group then there is a natural business logic in also applying the treasury module. However, this is an option that should be included as part of a thorough selection project to review all available solutions to ensure that the specific, defined needs of the treasury operation are best served.

TREASURY SYSTEM PROVIDERS Having selected the appropriate infrastructure the company now has to consider its options with regard to finding the right vendor. Generally, a TMS is licensed to a company for its defined use (either as an individual module or as an entire system) and is either installed at the company's premises on their hardware or supported on the vendor's hardware.

TMS VENDORS There are a number of vendors offering specialised treasury management systems for both corporate and financial institution treasuries. The size, expertise, financial strength and geographic coverage of the vendors can vary significantly, as can the functionality, deployment options and price of different packages. Many of these packages have been developed on a modular basis, so treasury need buy only the components required. There is a core system that includes the control environment, and the static data (i.e. users, counterparties, bank accounts). Other modules typically available include:

- Foreign exchange.
- Money markets.
- Debt.
- Interest rate derivatives.
- Cash management.
- Multilateral netting.
- Accounting.
- Risk management.

Usually, the package comes with pre-defined reporting templates and some also enable treasuries to create their own reports, using either a market standard report writer (e.g. Crystal Reports) or a proprietary reporting tool.

APPLICATION SERVICE PROVIDERS More recently, the application service provider (ASP) solution has been made available in which the server infrastructure of the software application is managed by the software supplier, effectively outsourcing IT. The concept in itself is not new, as computer bureaux existed many years ago, but access via the internet is.

The ASP specialises in the development, configuration and implementation of internet-based treasury systems. They are often staffed with people who have a treasury and/or banking background and who are familiar with the process and control issues associated with treasury operations. To a certain extent the ASP, by offering flexibility of input and output formats, has replaced many of the older in-house solutions, and provides the basis for "best of breed" configurations. In today's environment, it is more likely that specialist needs are best met by acquiring one or more specialist packages and developing interfaces between them and other ancillary systems both within and outside treasury.

ERP SYSTEM VENDORS Most of the major ERP system vendors have treasury and/or risk modules available. These are usually adopted by larger corporates for whom internal systems architecture and standardisation of platform are major issues. It is unusual to find an ERP module used on a standalone basis. It is far more frequent, however, to find organisations that have implemented an ERP system that use non-ERP TMS packages, driven primarily by a need for specialist functionality such as sophisticated instruments, processes, reporting or risk management requirements.

COSTS AND DOCUMENTATION When purchasing a TMS, the company enters into a legal contract concerning the purchase and maintenance of the software. This typically includes a licence agreement which allows the treasury the use of the system subject to certain conditions. Licensing stipulations may include:

- Licence term – the number of years for which the company is entitled to use the system.
 - Number of users entitled to access the system.
 - Specified sites.
 - Specific modules (e.g. types of functionality) to be used.
 - Interface abilities to/from other systems.
- Usually, the cost structure for a TMS comprises:
- A licence fee, which is one of a series of upfront payments to secure the rights to use the system subject to the conditions of the licence.
 - An annual maintenance fee (calculated as a percentage of the licence fee), covering support and upgrades.
 - Implementation and training costs.

There will also be additional costs for the company to consider such as external consultants to assist with the selection process, technology upgrades and internal IT resources for implementation and ongoing maintenance.

This article is based on the content of the ACT's Certificate in International Cash Management (Cert ICM), edited by Michele Allman-Ward. Please contact Yvonne Dineen for further information ydineen@treasurers.org.