



Market Insights: Benchmarking Treasury as It Prepares for the Recovery

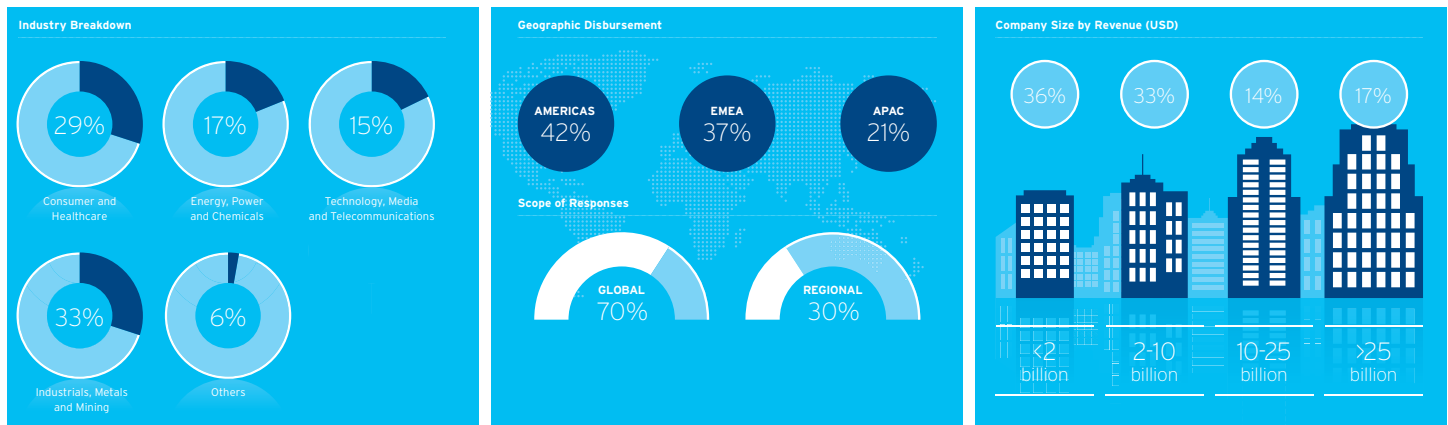
As we emerge from the global pandemic, many corporate treasuries are seeking to build resilience by moving away from manual processes and adopting new digital solutions. The Citi Treasury Diagnostic survey, the most recent of which we report on in this article, provides insights on best practices to help CFOs and treasurers navigate risk management challenges and take advantage of investment opportunities.

Citi Treasury Diagnostics (CTD) is an award-winning benchmarking tool designed to help companies assess the effectiveness of their treasury, working capital, and risk management practices against industry peers and best-in-class companies. It equips treasury departments to identify opportunities that can deliver value to their firms.

As shown below, CTD measures company performance relative to peers in six critical treasury areas:

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|------------------------------|------------------|------------------------|--|------------------------|-------------------------------|
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| <p>Policy and Governance</p> | <p>Liquidity</p> | <p>Working Capital</p> | <p>Subsidiary Funding and Repatriation</p> | <p>Risk Management</p> | <p>Systems and Technology</p> |

The findings in this article are based on a comprehensive review of survey results gathered from over 475 CTD participants. The respondents were from organizations representing a diverse range of sizes, industries, and geographies. Participant companies varied in turnover size – ranging from less than \$2 billion to greater than \$25 billion – and represented all sectors of the economy and all regions of the globe. The participant demographics are shown below:



Risk Management Fundamentals: Opportunities Remain

While the advent of new digital technologies and the evolution of financial services has prompted corporate treasury to rethink processes, the fundamental goals of treasury best practice – visibility of cash, liquidity centralization, and managing volatility – are unchanged. The survey shows that many opportunities remain for corporate treasuries to increase their use of technology and improve processes in order to achieve best-in-class results and meet key treasury objectives.

- Centralization of cash and risk remains the treasury mantra with 63% of companies concentrating cash at global or regional level; 80% of companies concentrate cash on a daily basis. However, only 61% of survey respondents have more than 75% participation across their global organization.
- Despite the availability of advanced cash forecasting technologies, only 34% utilize statistical analysis of previous patterns to make predictions and 80% remain reliant on Microsoft Excel to support their forecasting process.
- 77% of companies report more than 75% daily visibility of their cash position. Yet despite the availability of auto-matching technologies, only 41% of survey participants report auto-reconciliation levels of more than 75%.
- While reducing earnings volatility is a key risk management objective for 62% of companies, just 12% of companies actually hedge earnings translation exposures.

- Companies continue to follow a rolling, static, layered, or opportunistic approach to hedging forecasted exposures. However, forecasting error means that short-dated hedging continues to be the preferred tenor.
- Only 43% of respondents permit option-based strategies. The primary reason for use, among those that deploy such strategies, is exposure uncertainty.
- While 79% of respondents report having exposures to currencies outside the G-10, two-thirds report either hedging EM and G10 exposures to the same extent, or not hedging EM at all. Costs, market liquidity, and local regulatory considerations were cited as the primary challenges when managing EM currency risk.

Digital Aspirations Exist but Infrastructure Challenges Persist

The CTD survey shows that there is broad interest among companies in the digitization of treasury and finance, including the utilization of emerging technologies for process automation and data-led insights.

- 57% of respondents are looking at transformative opportunities across both their core business and treasury function.
- Driving efficiency within treasury and augmenting decision making are now the top two goals when investing in emerging technologies.

ANALYSIS OF THE CTD SURVEY RESPONSES SHOWS THAT PROGRESS HAS BEEN MADE AND THERE IS A CLEAR SHIFT TOWARDS A MORE STRATEGIC FOCUS WITHIN TREASURY. THE RESULTS INDICATE THAT COMPANIES HAVE DIGITAL ASPIRATIONS, EITHER BY DESIGN OR NECESSITY, AND ARE MOBILIZING RESOURCES TO TAKE ADVANTAGE OF OPPORTUNITIES.

While emerging technologies offer considerable opportunities, many companies need to focus on the fundamentals of treasury infrastructure as a priority. Survey finds that many find current proven technology ineffective. Part of the challenge is the low levels of automation and connectivity with bank systems, and the inability for some to effectively integrate their technology ecosystem.

- 68% of respondents report using a TMS/ERP treasury module; however, more than half report that their enabling technology does not support financial risk management or cash forecasting.
- 64% report that their treasury management system (TMS) is either not integrated or only partially integrated with their enterprise resource planning (ERP). This is a likely cause of the significant use of manual processes to support cash flow forecasting.
- 79% report that their TMS/ERP platform is not fully integrated with their banks, resulting in a requirement to manually reconcile.

Treasury Playbooks are Emerging

Analysis of the CTD survey responses shows that progress has been made and there is a clear shift towards a more strategic focus within treasury. The results indicate that companies have digital aspirations, either by design or necessity, and are mobilizing resources to take advantage of opportunities. Playbooks are emerging that seek to align a company's level of preparedness (as measured by the survey responses) to these digital aspirations. As companies approach budget and planning season, Citi Treasury Diagnostic Survey offers important insights for treasurers and CFOs.

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