

Successful Selection and Implementation of Treasury Management Systems

by Michael Delaney, Executive Director, FTI

SELECTION and implementation of a new Treasury Management System (TMS) is experienced by most corporate treasuries irrespective of size or complexity.

For some corporates the process is smooth, the transition painless, and the need to undertake a similar upgrade or change in future holds no fear for them.

For other corporates the experience is entirely different. Major problems are experienced resulting in a combination of some or all of the following:

- ◆ major time delays,
- ◆ significant cost overruns,
- ◆ continuous problems with technology,
- ◆ difficulties in the basic operation of the new system – deal capture, processing and reporting.
- ◆ total frustration for all.

All of this can result in a lack of belief/trust in the new system. In the most extreme cases it may result in a need to replace the new system much earlier than envisaged. Not surprising, therefore, that the mention of treasury systems installations evokes thoughts of “don’t mention the war” for some Treasurers.

But why such a contrast in experiences?

In this article we present the process for selection and installation of treasury systems that should result in success. We also highlight where others have made mistakes.

The project team

The starting point for any TMS project is to put in place a multi-functional project team with representatives from Treasury, Accounts, Internal Audit and IT Departments. A senior manager should be appointed as project manager (typically

the Group Treasurer) and a high-level management committee should be established to oversee the project. It is advisable that this committee includes the Finance Director, Head of Accounts, Head of Internal Audit, and the Head of IT. The responsibilities of the Steering Committee should be set out and the documentation should also cover the frequency of meetings, reports to be presented, minutes of meetings, etc.

This structure ensures clear allocation of responsibility to drive the project within the company and achieves buy-in of senior management support and commitment. Some companies also appoint an external project manager to manage the project. Such appointments have the advantage of eliminating

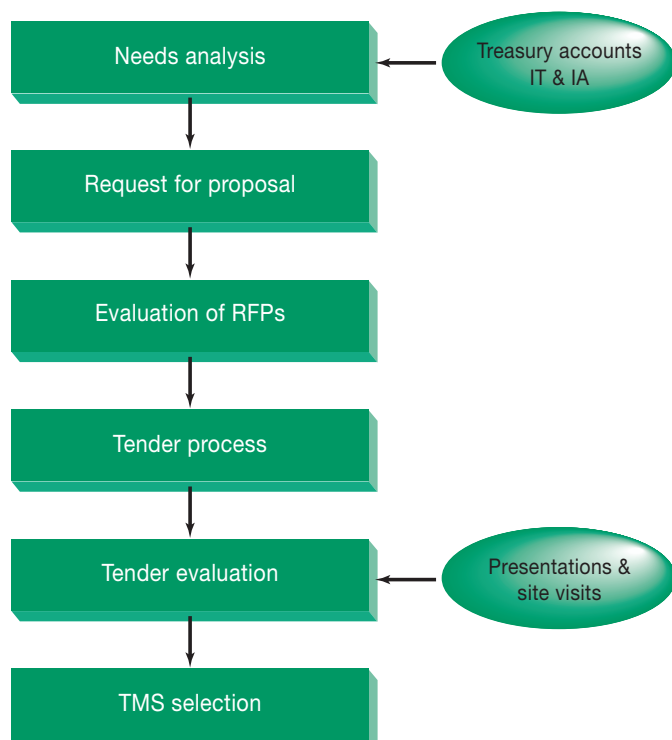
internal politics from the process and ensuring continuous focus on the project until completion.

Among the mistakes made by some companies is failure to recognise the importance of cross-functional teams or failure to appoint a Steering Committee. It is also not unusual for key personnel to become side-tracked as other developments take priority. If the internal project manager loses focus the alarm bells should begin to sound.

Selection of a TMS

The steps involved are shown in Chart 1. The first and most fundamental step is a clear specification of your needs and requirements from the new system.

1 – Selecting a TMS



This should take account not only current treasury activities but also of projected future requirements. This requires input from Group Treasury (front, mid and back office), Accounts or Finance Department, Internal Audit, and the IT Department. The importance of the contribution of the IT Department cannot be overemphasised. It is absolutely essential that the specification developed is consistent with the IT strategy of the company. Where this is not the case it can be a recipe for disaster.

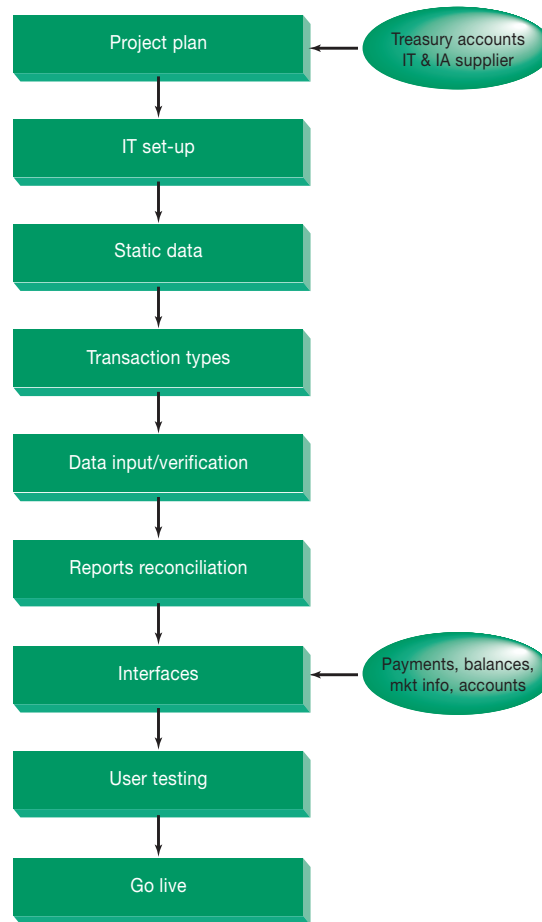
A common mistake made by companies in the past was to start from a position of viewing what TMS suppliers had to offer (typically a demonstration at a conference, etc) and then assessing how it could be applied in their Treasury. The result of such an approach was a system that did not meet the full requirements of the company or a requirement to make continuous changes to suit the system.

A more appropriate approach to develop Request for Proposal (RFP) for issue to systems suppliers. The RFP will contain the detailed specification of your requirements as established under step 1. It should also contain information on transaction types and volumes, reporting requirements and frequency including formats of reports required, interfaces required with market information systems, bank balance reporting, bank payment systems, accounting packages, etc. It should contain a clear statement about IT platforms and IT strategy that must be met by the system suppliers. The greater the detail provided in the RFP, the easier it will be to establish how well the various systems meet your requirements.

The RFP should also include a request for existing clients and references. The RFP should be finalised by the project team and signed off by the Steering Committee. It should then be sent to a number of systems suppliers with a deadline for completion and return. The number of suppliers to be contacted varies from company to company – as minimum we recommend not less than four and not more than eight or ten.

The next step involves evaluation of the RFP responses received from suppliers. These should be evaluated against strict criteria agreed by the project team in advance of receipt of replies. The completeness of the response, the ability to handle projected requirements and volumes, the ability to integrate

2 – Implementing a TMS



with accounting systems, payment systems, bank balance reporting, etc., the list of clients – these will all be key factors in the evaluation of the RFPs. Once the evaluation has been completed the suppliers to be invited to tender will be established. The results of the evaluation and the recommended suppliers to be invited to tender should be presented to the Steering Committee and approved. The number of suppliers to be invited to tender should be at least three and not more than five.

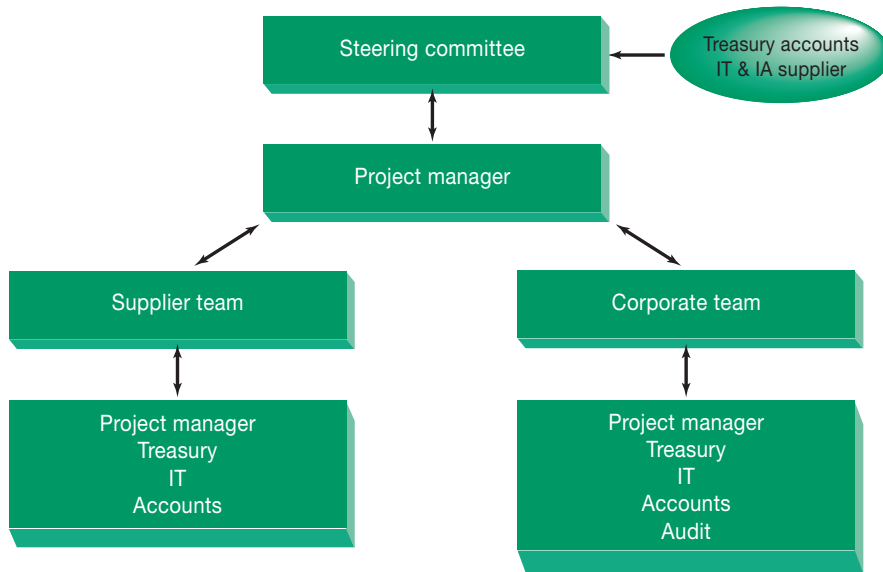
The formal tender process is a natural progression from the RFP stage. The suppliers will be invited to tender against the detailed tender specification developed by the company and amended (if appropriate) based on responses to the RFP. This will contain a clear specification of actual requirements, a requirement that the tenderers answer clearly all questions raised in the tender, that they provide a base project implementation plan and a firm pricing proposal.

After the tenders have been received, they should then be evaluated using

the criteria and scoring mechanism agreed by the project team and Steering Committee. The tenders should be scored and ranked by the project team and the findings discussed. The final ranking should then be established and the top two or three invited to make a detailed presentation to the project team. The systems suppliers should be allowed to make their presentations but the project team should ensure that all key areas are fully addressed. Critical in this phase is that the supplier provides detailed answers to questions rather than general comments. The suppliers should also be requested to nominate most appropriate reference sites based on other clients with similar requirements to yours. These should be visited as part of the evaluation process.

The final ranking of tenders will take into account the presentations and the feedback from visiting reference sites. The final decision on selection of a TMS can now be made based on detailed examination of how the system meets the requirements (operational and strategic),

3 – project management



is consistent with IT strategy, and provides value for money. Don't be surprised however if members of the project team have different rankings. This can be due to those systems that are strongest on scenario or risk analysis not scoring highest from a reporting or accounting requirements perspective.

The final ranking and the recommended supplier should be presented to the Steering Committee by the Project Manager and approved.

Implementation of a TMS

The steps involved are shown in Chart 2. The most critical phase is the development of a realistic project plan that should be developed and agreed between your project team and the system supplier. This requires detailed discussion, a clear understanding of the process, an assessment of the time required by each member of the implementation teams, a commitment by each person to take responsibility for their contribution, and a formal process for project management.

This may involve a number of alterations to the plan – however, time invested at this stage will reap significant benefits during the entire implementation process. Key points to watch for include:

- ◆ logical sequencing of tasks
- ◆ factor in existing commitments and periods where key personnel may not be available

- ◆ realistic assessment of time required to undertake key tasks, e.g. data input, data verification,
- ◆ agreed methodology for resolving problems and issues
- ◆ formal process for project management and reporting.

Chart 3 shows the structure for a formal project management process that ensures continuous effective management and the required level of ongoing reporting to senior management.

After the project plan has been agreed and signed off by both the company and the systems supplier, the next phase involves the provision and installation of the necessary system hardware and software. This requires close co-operation between the IT experts from both teams during installation and testing.

Once the initial IT set-up is complete, the focus moves to the Treasury team and the key phase of static data input. Companies often underestimate the degree of detail required here – thus leading to frustration especially if the detail is significantly greater than that required in the system being replaced. It is also essential that the requirements for data capture, recording, processing, reporting, and interfacing with other systems are fully understood at the outset. Where this is not the case, it may become necessary to insert additional fields at a later stage that could have been inserted at the outset. Even worse, it may require changing the format of static data set up. Once static

data input is complete it should then be verified by cross checking to existing records for all counterparties, etc.

The next phase involves the agreement of all transaction types – foreign exchange, money markets, cash management, debt management, etc. – and how they will be handled by the system. This will have received significant attention and focus during project discussions to date – however there must be a clear understanding of how the system will handle each transaction type – from data entry, to data processing, to interfacing with other systems, to interfacing with accounting systems, and to capturing in all necessary reports.

During this key phase it will become clear how skilled and experienced the project team from the system supplier are. During selection of the TMS, important factor in evaluation will be the level of experience of the project implementation team from the system supplier. In addition to having experience of implementing the system in a number of corporate organisations, it is a significant advantage if they also have experience of actually using the system themselves in a corporate organisation.

The next phases involve data input and verification for all deals and historic database that the corporate wishes to use in the new system. This phase need not be as time-consuming as many people fear. It requires consideration at the planning stage as system implementation at the end of Quarter one (requiring all deals outstanding at the beginning of the year to be input and a clear audit trail to today's positions) will require significantly less deal input than the same scenario and requirement in Quarter four.

The process of deal input should be spread among a number of personnel – this will be their first experience of the new system and an opportunity to put into practice the training given by the system supplier. Unless the training is converted into practice while still fresh, there is real danger of it being lost on a number of people – this can lead to significant problems and delays when the system goes live.

Once all deals have been entered and brought up to date the focus moves to reporting. It is advisable that the system supplier be given a detailed reporting package as part of the RFP process that clearly shows the minimum information required from the new system. These should be discussed in detail during the

evaluation process – the objective being to avoid misunderstanding or surprises during implementation.

The importance of reporting cannot be overstated. Until the new system is producing reports that are reconciled to the old system it will not be possible to sign off on the new system and thus end the period of dual running. From an operational perspective the target should be dual running for one month – however where major problems are encountered a longer period may be required. Having to input deals into two systems can put significant pressure on all team members.

The final phase in implementation involves interfaces with a range of other systems – bank payment systems, balance reporting, market information systems, and accounting systems. For some companies the successful achievement of such interfaces will result in significant improvements in efficiency, enable achievement of STP (straight through processing) and result in significant enhancements over the old system. Achieving these interfaces requires considerable commitment by the IT experts and the system users to ‘make it work’. Once achieved the benefits justify the effort.

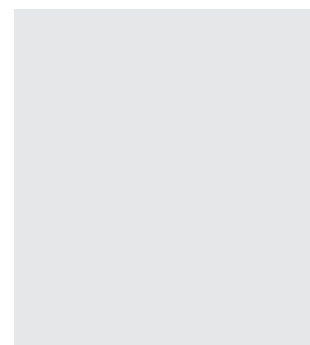
Once all interfaces are in place, all reconciliations, tests and validations completed, the system is ready for live running and the old system takes its place in Treasury history. The new system will take time to be fully ‘bedded-in’ and for all features to be fully understood and utilised to its fullest potential.

Conclusion

Selection and implementation of a TMS requires a professional, dedicated approach by all concerned. With proper planning, detailed preparation, and good project management there is no reason why system implementation projects cannot run smoothly and be successful.

Investment in a new TMS is a significant investment for any treasury operation. Recent advances in technology enabling the application service provider (ASP) solution to treasury IT and a growing trend to treasury outsourcing may alter the business model for treasury in the future. These will have the advantage of avoiding the need for a major TMS investment by the corporate and the ability to use an existing infra-structure that fully meets your requirements. ♦

FTI is a leading independent treasury consulting and outsourcing firm. FTI has developed its own specialist debt management system, ‘FTI-STAR’.



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