



Treasury hunting: Why now might be the time for CFOs to search for improvements in the treasury function

With ongoing inflation putting the squeeze on margins, working capital, and cash flow, now would seem to be an opportune time for finance leaders to intensify their focus on the treasury function.

The fast-rising cost of capital, supply chain disruptions, and other macroeconomic effects have created the kinds of constraints and challenges that companies haven't encountered in decades. As lending tightens, CFOs can collaborate with treasurers to control costs, improve liquidity, and better manage and monitor their banking relationships. At the same time, CFOs can take this opportunity to recalibrate their companies' treasury-

related market risk exposures, such as foreign currency and interest rate moves.

In the Deloitte 2022 global corporate treasury survey, a nearly unanimous proportion of respondents say that enhancing liquidity risk management (96%) and acting as a steward of risk management for the company (94%) are either "critical" or "important" mandates that the board or CFO has assigned to treasury. The global survey drew responses from 245 participants, nearly two-thirds of whom serve as treasury team leaders.¹

In addition, 91% of respondents describe being a value-add partner to the CFO

as either "critical" (51%) or "important" (40%).² That is fortuitous, given how much work awaits the corporate duo. In the survey, most respondents report that their organizations are planning to take actions to, among other feats, improve cash forecasting, address market risk, and boost capital structure—all within a year or so.

To deliver on the aforementioned mandates, treasury may also need to increase its operational efficiency, improve visibility into global operations, and deploy technological infrastructure to consolidate operations. In addition, treasury remains responsible for managing bank balances, asset positions, and financial contracts.

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In this edition of *CFO Insights*, we'll help guide CFOs and treasurers in increasing the function's efficiency and resiliency by, for example, pinpointing transparency gaps, identifying new risk exposures, and considering future needs. How disciplined is the company's approach to managing counterparties, such as banks? How adequate are its controls around mitigating cyber risk and fraud? And what working capital initiatives should the company undertake to offset rising costs driven by inflation, interest rate increases, and geopolitical risk?

Looking forward

As the core functions of treasury—managing cash, liquidity, and funding, in addition to overseeing financial risk—have become more challenging, CFOs may need to partner with treasurers to not only preserve the balance sheet but also enhance it.

Like CFOs, the role of the corporate treasurer has historically been narrow in nature: ensuring that bills are paid, collections are deposited, and operations are funded. But with market turbulence causing volatility in currency exchange rates and interest rates and fluctuating supply/demand for capital, treasurers have had to focus their attention on more strategic priorities. More recently, the COVID-19 pandemic required some treasury leaders to apply their skills proactively, assessing and addressing



risk rather than responding to the outcome of business transactions.

In the [global treasury survey](#), respondents agree that technical proficiency is not enough to lead the future treasury function.³ The treasurer of tomorrow will require a broader array of abilities, including skills in leadership and management, technology and data management, and communication and negotiation (see Figure 1). While AI may ultimately allow the treasury team to turn insights into foresights, reaching that point could require a high level of data cleansing and cross-system reconciliation and workflows.

That range of skills reflects the breadth of challenges many treasurers are facing.

Below are descriptions of some of those major tasks.

- **Complying with an eruption of new and changing regulations:** For starters, treasury leaders need to make sure they have the required visibility to effectively manage compliance risks and reduce the prospect of any violations. When asked about regulations, about 60% of survey respondents each chose the Interbank Offered Rate transition and applying environmental, social, and governance criteria as most likely to affect their treasury work over the next 12 months. Around 50% of respondents cited foreign currency regulation and expansion of the interface between open banking and application programming.

Figure 1. What skills will be more important for the treasurer of the future?



Source: Global Treasury Survey, Deloitte & Touche Enterprise Risk Services Pte Ltd, 2022

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• Adopting automation to support the execution of various responsibilities:

At many companies, the implementation of Treasury Management Systems (TMS) software has grown—or been upgraded—due to the COVID-19 pandemic. A plurality of survey respondents, 35%, say their companies have adopted dedicated TMS technology for cash management, while 31% report applying it to FX and interest rate risk management. Among survey respondents, 78% report applying technology to treasury accounting. Curiously, just 55% of respondents to the survey agree that cost is a challenge they consider when implementing new technologies. By comparison, 90% cited “Reduction in headcount due to automation” as a challenge they weigh in their technology adoption decisions (see Figure 2).

• Redesigning the operating model:

In the survey, many respondents say that their companies are looking to right-size their treasury organizations, evolving their capabilities by adding new skills they believe will be required as the treasury function changes. However, treasurers looking to expand capabilities face significant challenges in recruiting, or even identifying prospects with the necessary skills.

• Upgrading internal controls and governance:

Cybersecurity is a growing concern among corporate treasurers, with 45% of survey respondents ranking security and control among their organizations’ top five challenges. While treasury systems and banking platforms tend to comply with the security requirements of most organizations, fraud can occur through phishing emails, ad hoc payment requests, social engineering, or even internal activity. In the survey, 77% of respondents say they address fraud by enhancing internal controls and governance, with 73% implementing regular trainings for cyber fraud detection.

Bridging the gaps

The survey also found that many organizations are looking to increase their readiness for any possible “next event” by addressing gaps related to business continuity planning, among others.

Locating those chasms may require CFOs and treasurers to frame the appropriate questions. What follows are four queries that may help them succeed on their hunt:

1. Does treasury have an updated plan for monitoring counterparty risk?

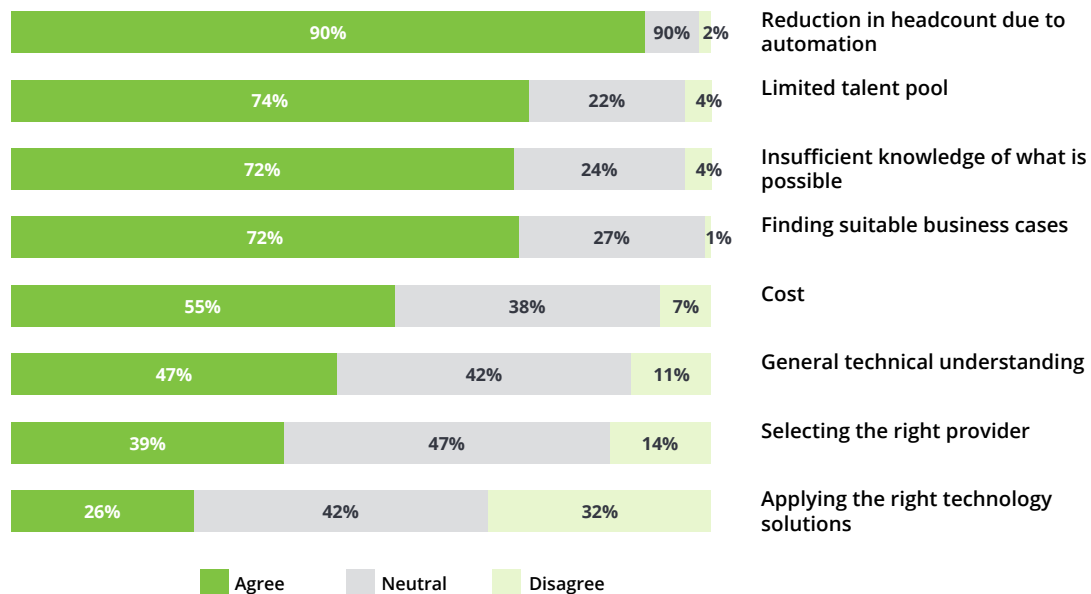
Managing active counterparty risk

requires engaging with bankers regularly and establishing monitoring processes around their acceptance criteria and performance. Treasury needs to know what it requires from banking partners—from automated reporting to credit risk management data. If the company has significant operating flows through a bank account and, for example, the bank falters, it may be exposed to both losses and operational concerns. Funds can also be frozen. What tolerance does the business have for bearing some loss?

2. What working capital initiatives do we need?

Some companies aim to improve working capital by making changes in accounts payable (AP) or accounts receivable (AR). In a slow-growing economy, that generally means collecting faster and paying later. Mismatches may occur between AP and AR, with companies paying vendors in 30 days while waiting 60 to 90 days for customers to pay. A single supplier may have negotiated many contracts with different payment terms, ranging from net zero to net 90. During the COVID-19 pandemic, the required due diligence process may have deteriorated when some companies sought to diversify their supplier base.

Figure 2. Which of the following challenges do you consider when implementing new technologies?



Source: Global treasury survey, Deloitte & Touche Enterprise Risk Services Pte Ltd, 2022

3. Can talent be freed up to deliver faster, smarter insights? Technology may free up staff in areas ranging from the credit department to customer service. Instead of keying invoices, employees can be engaged in acquiring valuable insights into, for example, identifying customers that are more likely to pay earlier. Procurement may also find opportunities to improve sourcing and reduce maverick spending. Such insights could enable CFOs to improve both days sales outstanding and days payable outstanding.

4. Are you engaging the right colleagues? Ideas for how best to future-proof treasury aren't strictly the domain of the CFO or even the treasurer. Engage supply chain and AP leaders, for instance, on how to improve working capital relatively quickly to offset inflation. (See the accompanying story, "Managing working capital in an inflationary environment.")

From just-in-time to just-in-case

To borrow a term from manufacturing, just-in-case may need to replace just-in-time regarding cash and liquidity. Capital isn't cheap anymore, but some companies have already loaded up on debt. For companies with lower investment grade ratings—or for private, unrated companies—the availability of cash could be an issue due to the increased cost.

For treasurers and their functions, such a constrained environment requires extra agility. CFOs may need to ensure that treasury teams are open to new instruments and approaches and go beyond mastering knowledge in risk management strategies, liquidity structures, and financial analysis. Like CFOs, treasurers have to communicate effectively, sharing data with business unit leaders about requirements and risks.

With the supply of low-interest capital dropping and inflation being steadfast and stubborn, treasurers must focus on profitability, potentially generating operating cash to meet the company's needs. In looking for untapped levers to free up capital or support the supply chain, they shouldn't overlook their own expanded management capabilities.

Managing working capital in an inflationary environment

A company can create strategic advantages by actively managing its working capital and being prepared for disruptions or challenges in the economic environment, such as inflation and rising interest rates. By keeping a constant focus on cash, executives can leverage the current inflation cycle and related uncertainty to make their enterprises more competitive.

Doing so requires examining each working capital sub-cycle's ability to meet inflation-driven changes, events, and challenges. This exercise can help enterprises release cash and maximize purchasing power as inflation unfolds. Rising inflation can affect the various functions of a company and each of its working capital sub-cycles very differently.

Agility within the order-to-cash, forecast-to-fulfill, and procure-to-pay cycles is simply how quickly a company's people, processes, and technology can react and be responsive to market changes, events, and challenges to stabilize its cash conversion cycle.

Driven by inflation, escalating costs can erode profits. And as inflation persists, less agile companies may appear profitable, while simultaneously losing purchasing power and weakening their credit worthiness. This occurs when collections are not timely, when bad debt increases due to rapid deterioration of creditworthiness, and material and wage costs are not passed along to customers in a timely manner. Changes in cash and profitability can lead to more issues if the weaker cash position causes vendors to decrease payment terms or demand upfront payments to account for the rising risk.

To increase agility and respond to inflation and profitability concerns, executives can begin to prioritize their enterprises' responsiveness by improving key working capital processes, including the following areas:

- **Order-to-cash:** First recipients of inflated money often have an advantage as they can act earlier. Consider focusing on the order-to-cash cycle first by assessing the entire cycle. If upstream or downstream processes suffer from bad data; a lack of controls; or people, process, or technology failures, then efficient timely collection simply does not happen.
- **Forecast-to-fulfill:** Agile operations provide a competitive advantage to companies capable of reacting to changing conditions faster than their peers. Addressing supply chain issues and assessing demand and supply plans may reduce delivery uncertainty, while rationalizing variants and products can reduce operating complexity.
- **Procure-to-pay:** Larger market participants can often manage the effects of inflation more easily than smaller organizations (for example, by pre-buying and paying in inflated dollars). Validating vendor master and contract data, as well as shifting vendors with incorrect or outlier terms as inflation concerns grow can help companies increase cash and their purchasing power. Additionally, reviewing the frequencies of payment runs and how payments are selected and made can help identify opportunities to hold on to its cash longer and improve liquidity.

To read the full report, see [Managing liquidity through working capital improvement as a response to inflation](#).

End notes

1. "2022 global treasury survey," Deloitte & Touche Enterprise Risk Services Pte Ltd, November 2022.
2. Ibid.
3. Ibid.

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