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SAP Treasury
Corporate-To-Bank Connectivity

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Key Treasury Challenges & Drivers

Treasurers are currently facing with many challenges in a competitive environment characterized by rapid change on many fronts

Expanding risk coverage



The range of risks that the treasury function is now expected to cover has expanded. As well as traditional risks such as foreign exchange, funding, liquidity and counterparty risk, the treasury function is increasingly likely to manage commodity price risk, insurance and pension risks.

Simplifying bank relationship



Upgrading technology/communication to give global visibility and transparency of information. Treasurers are looking for red flags about their bank's solvency. They find themselves being pressured by bankers to give the bank more business. Treasurers also anticipate an increase in bank fees. Corporates used to keep more money with a single bank but are now spreading balances in order to distribute risk.

Optimizing liquidity throughout the organization



Optimize the liquidity management on the short-and medium term by controlling the cost of their affiliate at the central level. Treasurers look for foreseeing the financial flow impacting the cash accounts.

Securing financing



Secure lending agreements, comply with covenants, re-confirm agreements with bankers for the coming years without being exposed to too much increase of the credit spread. Eliminate higher-cost bank debt with undesirable terms and conditions.

Achieving a clear view of the global cash position



Organizations operate on a progressively global basis. As a result it becomes increasingly challenging to manage a central view of all banking arrangements. Depending on the relative autonomy of different business units, it may not always be practical simply to rationalize all global accounts. Other cash management methods—such as payment factories and in-house banking—may offer a more successful solution.

Enabling timely and accurate Cash Flow Forecasts & actively participating to Working Capital Reduction



Having an accurate and timely view of the global cash position is vital for effective cash flow planning, and requires effective communication between business units. The treasurer may also provide valuable input into the longer term forecasting and budgeting processes and must work closely with the finance function.

Reporting



Technology has become more important for global visibility, transactions execution, and management reporting. Investment portals are one example of a technology tool that is facilitating these needs. Additionally, "SWIFT has become critical for bank communication." [AFP, Los Angeles, '08]

Cost Reduction Management



Corporations are looking to consolidate their banking relationships and to centralize their treasury operations therefore reducing costs, complexity and improve controls .

Key Treasury Challenges & Drivers

It is now a good opportunity to re-think the Corporate-to-Bank connectivity in the light of any new initiatives in the Treasury area

Corporate-to-Bank Connectivity Issues

Maintenance Costs For Communication Interfaces

US\$25,000 and more per year and proprietary interface – while Corporates typically deploy a wide range of different bank communication interfaces with a wide variety of technologies

Process Inefficiencies

High levels of manual processing, productivity losses, excessive exception handling and an overall lack of transparency into payment flows due to missing straight-through processing and separate handling of payment orders or bank statements for each bank

Missing Transparency of Payment Transactions

Most proprietary interface applications cannot process incoming status messages from banks

Cost of Working Capital

Errors in payment orders are identified too late and certain level of liquidity must be kept on transaction accounts due to lack of information

Security Issues

Security gaps during payment file transfer (authorization, signature and encryption often not part of the solution)

Cumbersome Interfaces Hinder Compliance Efforts

Payment data is highly sensitive in nature and requires sophisticated security processes to meet ever-increasing regulatory mandates

Key Treasury Challenges & Drivers

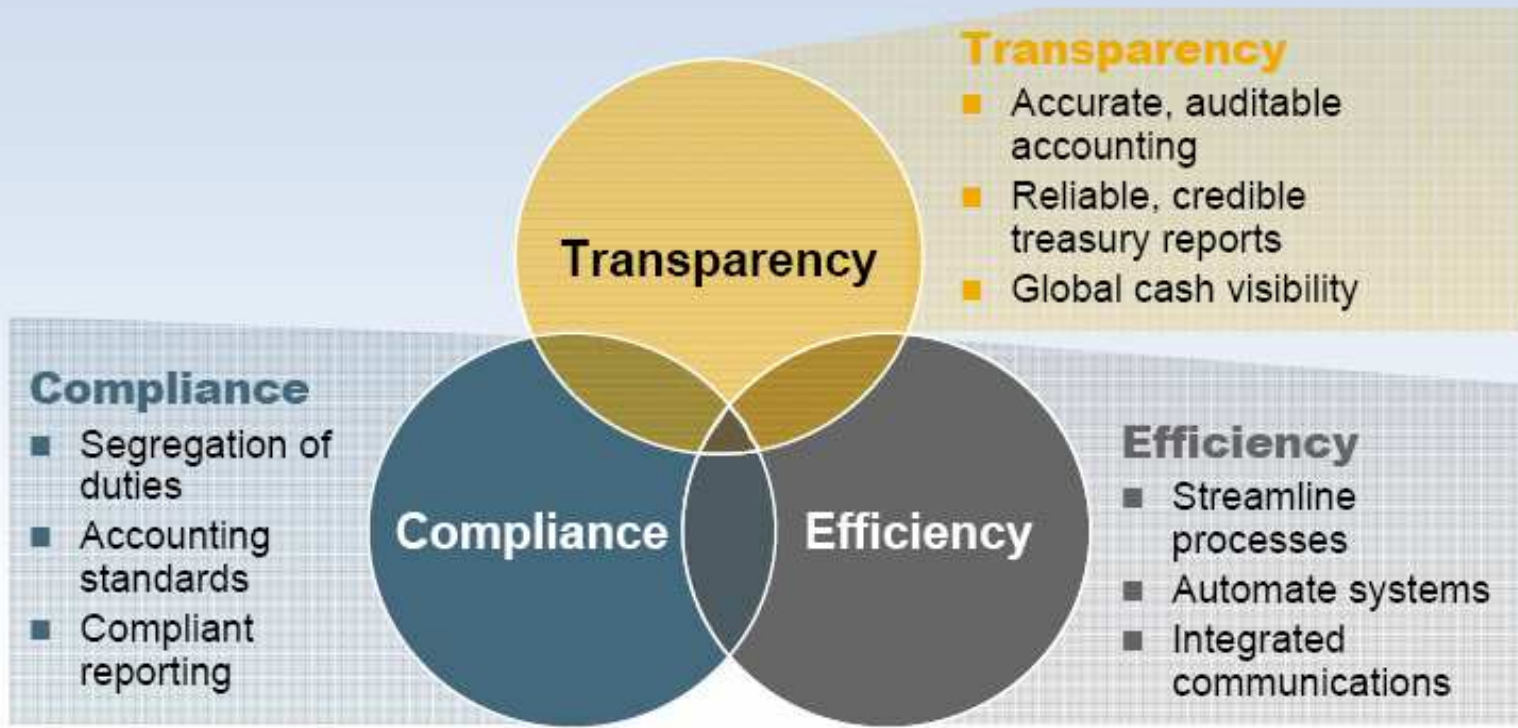
At the same time the role of many Corporate Treasurer's as a strategic decision maker is not optimized due to a number of challenges.

Challenge	Consequence	Impact
Treasury is decentralized and in multiple locations	<ul style="list-style-type: none"> Multiple banks and bank accounts used in different locations No systematic approach to data collection and co-ordination 	<ul style="list-style-type: none"> High bank fees Increased time spent on bank relationships
Non-Standardized Processes	<ul style="list-style-type: none"> Organizations are still reliant on spreadsheets solutions for data capturing and manipulation (e.g. Daily activities such as bank reconciliation and exception processing) Processes are not standardized across business units which use their own "tools" to handle data 	<ul style="list-style-type: none"> Lack of group cash transparency Efforts are duplicated Weak controls
Poor Systems Integration	<ul style="list-style-type: none"> Financial data is held in multiple systems, or is not available in a timely fashion – processes such as cash forecasting become difficult and inaccurate Financial risk is not properly understood, group wide liquidity is not controlled or accessible 	<ul style="list-style-type: none"> No overall picture & ineffective position management Lack of timely and accurate forecasting Ineffective risk management
Under Utilization of Technology	<ul style="list-style-type: none"> Real-time cash throughout the organizations' multiple business units is not available Inaccurate tracking and flagging of maturities and payment schedules; penalty and missed maturity costs are not eliminated Real-time performance measurement and risk management throughout multiple business units (e.g. "what if" , Value at Risk) is not available. Costs are higher and hedging is not as effective 	<ul style="list-style-type: none"> Idle cash, unnecessary borrowings, inefficient transaction flows Missed opportunities (e.g. FX and borrowing spreads)

Needs of Corporate Treasurer's

Financial Excellence...in Treasury Operations

Treasury Requirements



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Overview of SAP Treasury applications

Treasury Applications from SAP – Technology & Applications Supporting Successful Treasury Operations



Opportunities for Improvement (1)

Accenture's Offering Components address several of the challenges faced by today's Corporate Treasurers.

Description	Symptoms	Recommendation	Offering Component
Decentralized operation	<ul style="list-style-type: none"> ▪ Treasury Management is decentralized throughout the organization. ▪ Units work autonomously in several different locations / countries 	<ul style="list-style-type: none"> ▪ Define and implement a global treasury management model (e.g. regional center) ▪ Provide a centralized cash and risk management function 	<ul style="list-style-type: none"> ▪ Organization Design
Multiple bank accounts and relationships	<ul style="list-style-type: none"> ▪ Multiple banking relationships exist for various services ▪ Units within the organization use different banks ▪ Lack of detailed knowledge of bank conditions ▪ Lack of homogenization of bank conditions 	<ul style="list-style-type: none"> ▪ Perform assessment to determine optimal bank structure and relationships. ▪ Implement homogenous banking conditions 	<ul style="list-style-type: none"> ▪ Banking Operations
Inefficient cash management	<ul style="list-style-type: none"> ▪ Treasury does not have visibility to global cash balances ▪ Cash forecasting is inaccurate and data is received from several sources (likely manual) ▪ High cash balances are sitting idle in bank accounts ▪ Funding and borrowing decisions are not optimized 	<ul style="list-style-type: none"> ▪ Standardize the type, format and frequency of cash information received from different units ▪ Implement cash pooling structure ▪ Integrate cash position and forecasting information with the underlying financial systems ▪ Automate cash position and forecasting data 	<ul style="list-style-type: none"> ▪ “Corporate-to-Bank Offering Accenture-SWIFT” : SAP Bank Communication Management & Integration Package for SWIFT (SIPS) ▪ SAP Cash & Liquidity Management

Opportunities for Improvement (2)

Description	Symptoms	Recommendation	Offering Component
Complex internal and external payment processes	<ul style="list-style-type: none"> High volume of payments made between different units within the organization External payments are not aggregated Intercompany is difficult to reconcile 	<ul style="list-style-type: none"> Implement an in-house bank and / or payment factory to streamline payments and reduce complexity and costs of the process Implement standardized bank connectivity: SWIFTNet Alliance, Alliance Lite 	<ul style="list-style-type: none"> SAP In-House Cash “Corporate-to-Bank Offering Accenture-SWIFT” : SAP Bank Communication Management & SIPS
Lack of integration	<ul style="list-style-type: none"> Lack of visibility to cash balances Treasury is not integrated with the other systems (e.g. Accounts Payable, Accounts Receivable, GL) Collection and payment forecasts are of poor quality 	<ul style="list-style-type: none"> Implement a Treasury Management System and corporate-to-bank connectivity, which integrates all necessary data for effective cash and risk management 	<ul style="list-style-type: none"> SAP Cash Management SAP Treasury & Risk Management “Corporate-to-Bank Offering Accenture-SWIFT” : SAP Bank Communication Management & SIPS
Inefficient risk management	<ul style="list-style-type: none"> Financial risk across the organization is not consolidated Key risks (interest rate, foreign exchange) are not clearly understood and not managed effectively 	<ul style="list-style-type: none"> Clearly define risk management policy and procedures across the treasury organization Implement integrated risk management system with underlying risk tools Consider netting to consolidate the currency trades Form an in-house bank to cover and control all foreign exchange risk centrally 	<ul style="list-style-type: none"> SAP Treasury & Risk Management SAP In-House Cash

SAP Treasury System Offerings

Corporate Treasurer's business imperatives can be addressed by SAP Treasury

Corporate Treasurer's Objectives

- Reduce operational costs
- Be compliant with laws and regulations
- Have visibility to global cash balances
- Understand global risk profile (e.g. FX, interest)
- Integrate back, middle and front office processes
- Improve baseline data for decision making
- Build real time connectivity to market
- Enable Straight Through Processing (STP) with banks and 3rd Parties



SAP Treasury System Offerings

- Increases automation and reduces redundant processing (and reduces transaction costs)
- Integrates cash management and risk management operations across all business entities within the organisation allowing more effective decision making
- Provides accurate cash position and forecasting data enabling better investment and funding decisions
- Provides real time, global view of liquidity
- Improves the efficiency of hedging and risk operations
- Improves data collection and sharing of information
- Facilitates implementation of best practice processes and controls
- Improves controls across the treasury function and establishes a better audit trail
- Increases process automation, reduces need for manual re-keying (and reduces errors)
- Interfaces with banks or SWIFTNet with SAP Bank Communication Management, integrated with SAP R/3 (“**Corporate-to-Bank Offering Accenture-SWIFT**”)
- Provides Straight Through Processing (STP) of treasury transactions

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Key Treasury Challenges & Drivers

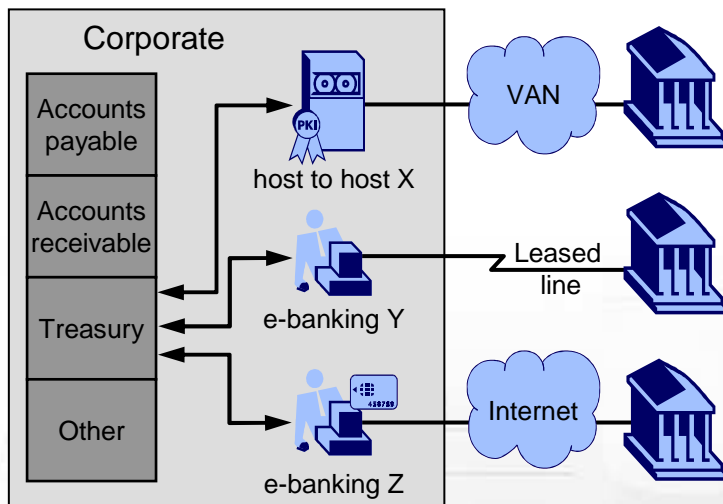
Opportunities for improvements with SAP Treasury solution

Corporate-to-bank connectivity

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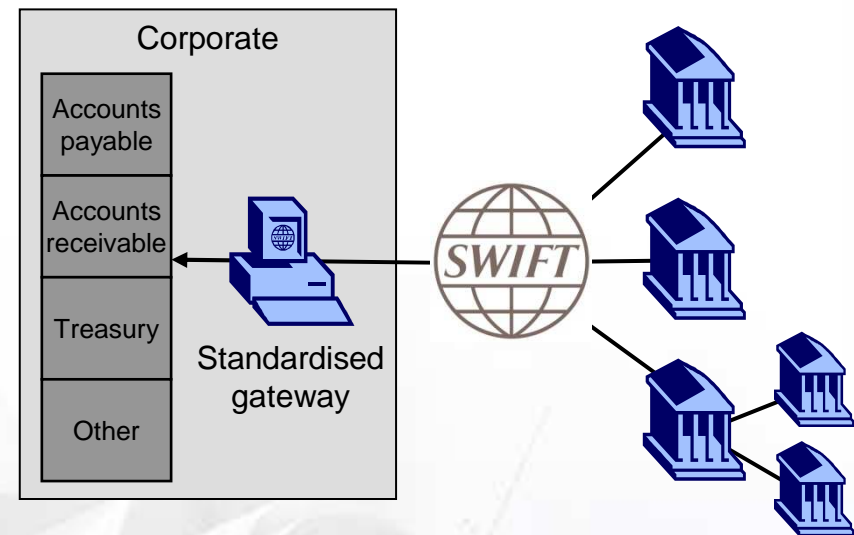
Multiple standards & communication standards to unified standardized gateway

Multiple bank channels



- High cost
- No global visibility on cash
- Impossible to centralise

Single, standardised gateway



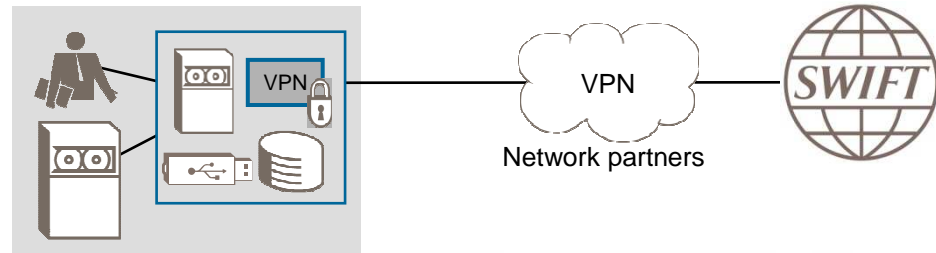
- Global visibility on cash
- Lower cost
- Increased control and security
- Reduced risk

Different connectivity options

Different connectivity options will be assessed in function of the typology of the customer

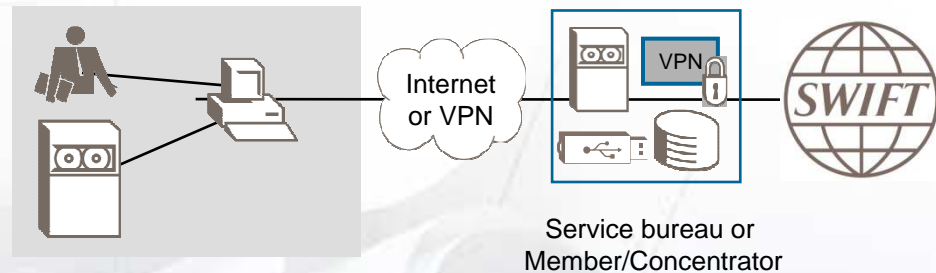
Direct connection

Global corporate (25+bn turnover)
Millions payments/year
Manage your own SWIFT connection



Indirect connection

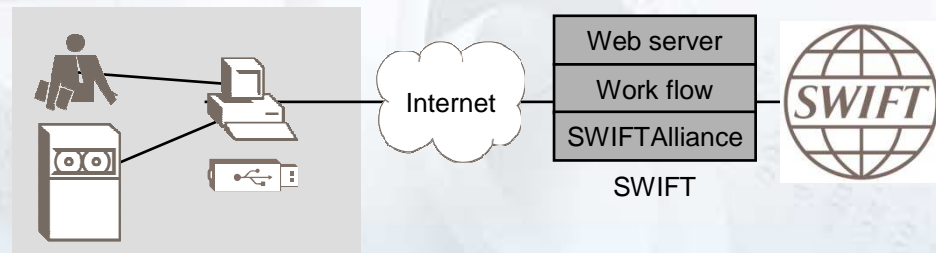
Very large corporate (1–25 bn turnover)
Hundred thousands payments/year
Outsource SWIFT connection



Service bureau or
Member/Concentrator

Alliance Lite

Large corporate (500 million–1 bn turnover) +/- 200 transactions/day
Simple solution



SWIFT

Benefits can be quantified

Operational benefits	Staff reduction, reallocation and/or growth avoidance	# FTE * cost per FTE
	Bank systems retirement and/or growth avoidance	# systems * 5 to 20 KEUR
Financial benefits	Working capital optimization and growth avoidance	# basis points improvement % slow down in growth Use un-invested cash Reduce overdraft and borrowing cost
	Transaction efficiencies	Economies of scale
	Interest on payments released later	# days * overnight interest
Additional benefits	Security	Avoidance of fraud, manual errors, ...
	Compliance	Less control points, documentation, legal costs, ...

Business Case for Corporate

Capitalizing on SWIFT / Accenture assets, International Corporates will reduce significantly the banking costs and increase visibility and control over the banking flows

Global visibility on cash

Better visibility on global cash allows reduction of borrowing cost, optimisation of un-invested cash and avoidance of working capital growth

- **EUR 10 million** in net benefit at Swiss Re

Cost reduction

Rationalisation of electronic bank messaging systems at EUR 5,000 to 20,000/year each

- **15 systems retired** at T-Mobile
- **25 systems retired** at DuPont
- **40 systems retired** at Arcelor

Cost reduction / avoidance

Automation leads to staff productivity increase, re-allocation and growth avoidance

- **30% volume increase per resource** at GE
- **8 extra staff avoided** at Petronas

Differentiated architecture scenario

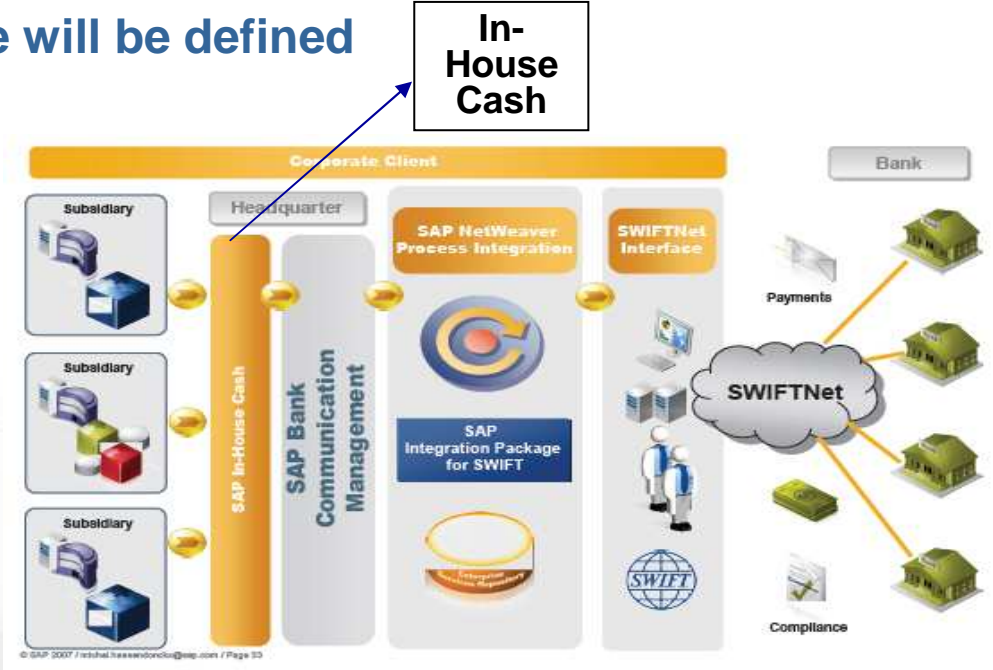
The best-fit in term of architecture will be defined

In-House Cash

SAP Connectivity
 SAP Treasury
 Bank Communication Manager

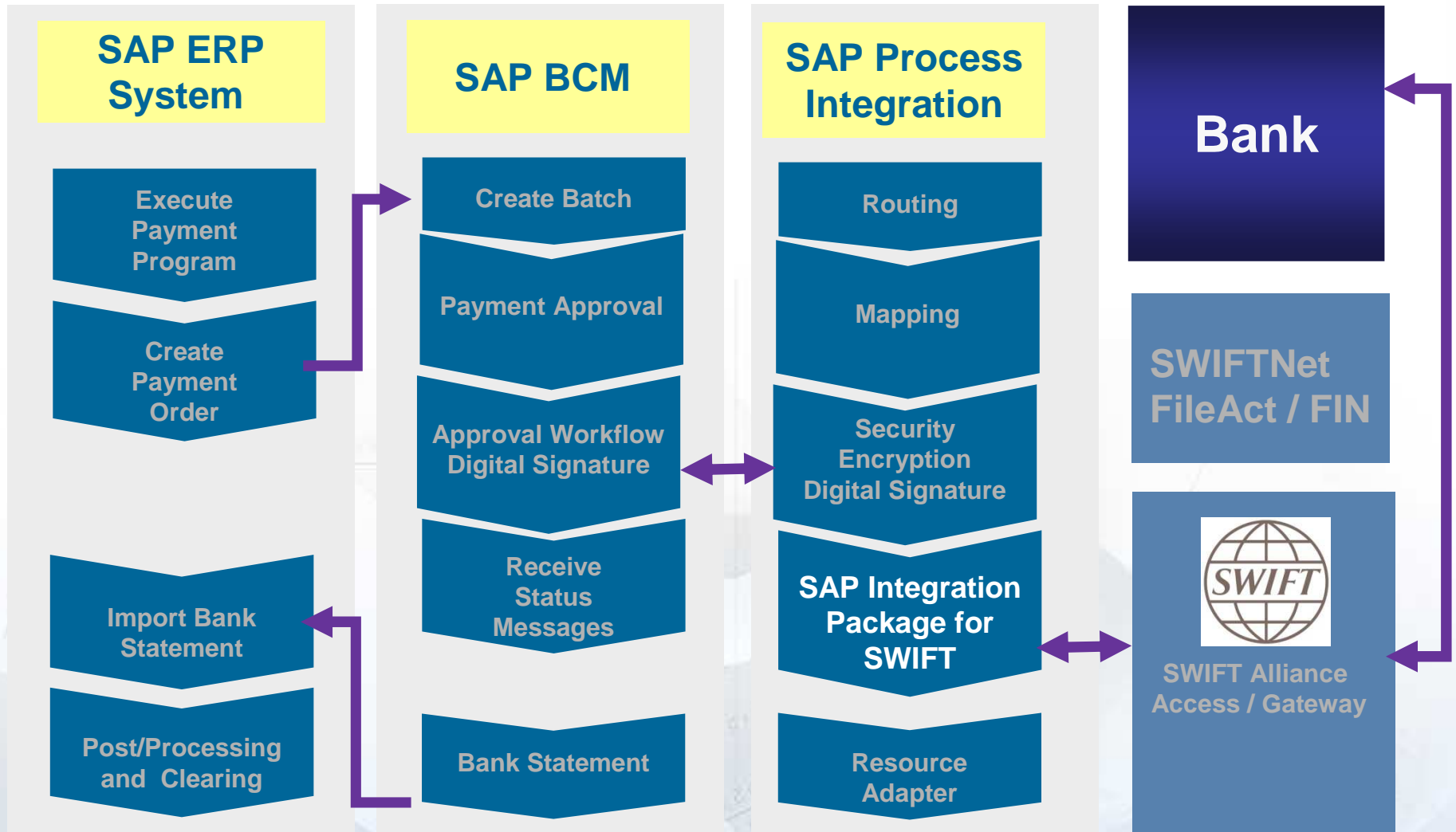
SAP Internal Bank
 SAP Treasury
 Bank Communication Manager
 In-House Cash

Other TMS
 Corporate ERP
 SUNGARD (Trax) solution
 Wall Street Systems



SunGard & AvanGard	AvanGard Trax Payment Factory AvanGard Quantum
XRT	XRT Business Exchange
Reuters Financial Software	Kondor Trade Processing (KTP)
Wallstreet Systems	Wallstreet Suite

SAP-SWIFT integrated solution



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Successful credentials

Corporate-to-Bank Connectivity



Schlumberger



SAP Treasury



- Global Oil and Gas / Energy Company
- Leading company in the flavors and fragrance
- International Forerunner in mobile communications
- Major European Life Insurance Company

