Evolving Corporate Treasury Priorities Tackle New Market Realities

September 21, 2017

Presented To

Presented By

Paul LaRock, Director
The New Treasury Playing Field

New geopolitical order

• Bilateral vs. multilateral approaches
  – Brexit
  – US elections
• Role of multilateral organizations?
  – G20
  – BCBS
  – FSB
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Global implications

• Market structure
• Interest rates
• Foreign exchange
• Trade policy
• Role of central banks
• Taxation
• Regulation
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Regulatory

• Basel III
• Money fund regulations
• Rule 385 / overseas corporate cash
• Dodd-Frank
  – Volcker Rule
• EMIR
• MiFID
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Implications for corporate treasury

• Increased complexity
• Interest rate movements
• Availability of credit
• Investment options
• Cost of bank services
• Global cash flows
• FX volatility
Game Strategy

- Annual priorities survey prior to SOTP
- Treasury priorities
- Benchmark desires
## 2017 Top Treasury Priorities

<table>
<thead>
<tr>
<th>Priority</th>
<th>Rank 2017</th>
<th>Rank 2016</th>
<th>Rank 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash forecasting</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Financial risk management, FX</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Treasury staffing levels and skill sets</td>
<td>3</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Treasury functional organization</td>
<td>4</td>
<td>3</td>
<td>5</td>
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<tr>
<td>Treasury management systems</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Bank relationship management</td>
<td>6</td>
<td>4</td>
<td>6</td>
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<tr>
<td>Best practices</td>
<td>7</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>8</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Balance sheet optimization</td>
<td>9</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Bank service fees</td>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Treasury Strategies 2017 State of the Treasury Profession Survey
## 2017 Top Benchmark Desires

<table>
<thead>
<tr>
<th>Area</th>
<th>Rank 2017</th>
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<th>Rank 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank service fees</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial risk management, FX</td>
<td>2</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Cash forecasting</td>
<td>3</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Centralizing or decentralizing treasury functions</td>
<td>4</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Best practices</td>
<td>5</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Treasury management systems</td>
<td>6</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Treasury functional organization</td>
<td>7</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>8</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Treasury staffing levels and skill sets</td>
<td>9</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Banking relationship management</td>
<td>10</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Treasury Strategies 2017 State of the Treasury Profession Survey
A new race has begun

Re-equip treasury to deal with new market dynamics and complexities

• Quality vs. getting by
• The right internal teams
• The right external partners
• The right tools

Go Cubs!
Cash forecasting

- New playing field → cash flow impacts?
- Real interest rates
- May need outside help for a workable, valuable forecast
Playbook

Treasury technology

- Technology largely in place, although more needed
- Under-leveraged
- Optimization preferred to rip and replace
Functional treasury organization

- Restructuring – restacking?
- New Treasurers – First 100 Days

Help your boss succeed

- What kind of treasurer?
  - Balance sheet treasurer: capital structure, investments, interest rates, etc.
  - Income statement treasurer: payments, financial operations, efficiency
- Become an expert in something important to them
Bank service fee management

• Ripe for price increases
• Get your hands around wallet allocation and account services
• Put in good dashboards – balances, rates, fees, credit, ECR’s
• Understand product spend and variances
• Market benchmarks
Bank service fee management

Wallet allocation

- Concept of wallet – balances, services, credit
  - What it means to you, to your banks
  - Role of ECR and BAF on balance allocation
- Wallet allocation goals and discussions
- Tracking your wallet
  - Difficult parts of the wallet – merchant card, p card, etc.
Bank service fee management

Account services

• Good vs. bad architecture

• Individual account analysis vs. consolidate account analysis

• Understand your business needs
  – Examine account structure & services used
  – Collaborate with business units on service needs

Services by bank - June
Bank service fee management

Untangling ECRs

- Balance categories – the four types of corporate cash
- Compensating balances and ECRs
- Is an ECR really an investment rate?
- Balance assessment fees
- Nominal vs. effective ECRs
- Rising rate environment – what to expect

<table>
<thead>
<tr>
<th></th>
<th>Bank 24</th>
<th>Bank Commerce</th>
<th>First Natl</th>
<th>MetraBank</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ledger Balance</td>
<td>70,255,997</td>
<td>131,624,741</td>
<td>53,178,400</td>
<td>265,993,561</td>
<td>521,052,698</td>
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<tr>
<td>Collected Balances</td>
<td>69,358,780</td>
<td>131,284,434</td>
<td>53,030,918</td>
<td>265,644,266</td>
<td>519,318,398</td>
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<tr>
<td>Earnings Credit</td>
<td>25,657</td>
<td>56,905</td>
<td>26,152</td>
<td>130,411</td>
<td>239,125</td>
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<tr>
<td>- Balance Assessment Fee</td>
<td>10,265</td>
<td>14,067</td>
<td>7,747</td>
<td>33,914</td>
<td>65,993</td>
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<tr>
<td>= Effective Earnings Credit</td>
<td>15,391</td>
<td>42,839</td>
<td>18,405</td>
<td>96,497</td>
<td>173,132</td>
</tr>
<tr>
<td>Calculated ECR</td>
<td>0.44%</td>
<td>0.52%</td>
<td>0.59%</td>
<td>0.59%</td>
<td>0.55%</td>
</tr>
<tr>
<td>- Balance Assessment Rate</td>
<td>0.18%</td>
<td>0.13%</td>
<td>0.17%</td>
<td>0.15%</td>
<td>0.15%</td>
</tr>
<tr>
<td>= Net Effective Rate</td>
<td>0.27%</td>
<td>0.39%</td>
<td>0.42%</td>
<td>0.44%</td>
<td>0.40%</td>
</tr>
</tbody>
</table>
Bank service fee management

Managing product families

- Measuring volume correctly
- The all-in unit cost
- Month to month variances – what they may mean
- Comparing to contract prices (and volumes)
- The value of market price comps

<table>
<thead>
<tr>
<th>Monthly Variance Report</th>
<th>Heritage Bank</th>
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</thead>
<tbody>
<tr>
<td>Service</td>
<td>Current Period</td>
</tr>
<tr>
<td></td>
<td>Actual Avg</td>
</tr>
<tr>
<td></td>
<td>Volume</td>
</tr>
<tr>
<td>Depository Services</td>
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<tr>
<td>010 000 Account Maintenance</td>
<td>6</td>
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<tr>
<td>010 101 Electronic Credits</td>
<td>1,641</td>
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<tr>
<td>010 100 Paper Debits</td>
<td>2,167</td>
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<tr>
<td>010 100 Electronic Debits</td>
<td>1,670</td>
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<tr>
<td>000 230 Deposit Coverage</td>
<td>68,796</td>
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<tr>
<td>Account Reconciliation Services</td>
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<tr>
<td>150 030 Full/Positive Pay Maint</td>
<td>8</td>
</tr>
<tr>
<td>150 120 Full/Positive Pay-per Item</td>
<td>7,524</td>
</tr>
<tr>
<td>150 322 SP Checks Returned</td>
<td>47</td>
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<tr>
<td>200 011 A&amp;P Transmission Output</td>
<td>44</td>
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<tr>
<td>150 100 Daily Paid List Items</td>
<td>7,524</td>
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<tr>
<td>151 022 Payee Positive Pay-per Item</td>
<td>7,524</td>
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<tr>
<td>400 272 SP Current Day per Item Det</td>
<td>4,106</td>
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<tr>
<td>400 272 SP Previous Day per Item Det</td>
<td>11,228</td>
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<tr>
<td>400 272 SP Previous Day per Item Sum</td>
<td>1,584</td>
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<tr>
<td>150 410 SP Stop Payments-per Stop</td>
<td>62</td>
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</tbody>
</table>
Bank Service Fee Management

Market Benchmarks

Deposit Services

Disbursements and Reconciliation

Lockbox

Funds Transfer

Note: For sample purposes only. Data are hypothetical.
Today’s Speaker

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- Cash Forecasting
- Financial Risk Management
- Treasury Organization
- Leading Practices Review and Benchmarking
- Payments Strategy
- RFP Support for Banking Services
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- Technology Selection, Implementation and Optimization
- Treasury Change Management and Resource Support

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