

Freeing time to better allocate it and add value

When you decide to automate further processes in treasury, for example on FX processes, what are you doing with time you have freed up? To what tasks do you allocate partly freed resources? How can you value the time saved in a ROI process? These are legitimate questions lots of CFO's and Treasurers raise? If you can answer these questions, it will help "selling" automation processes and related costs.

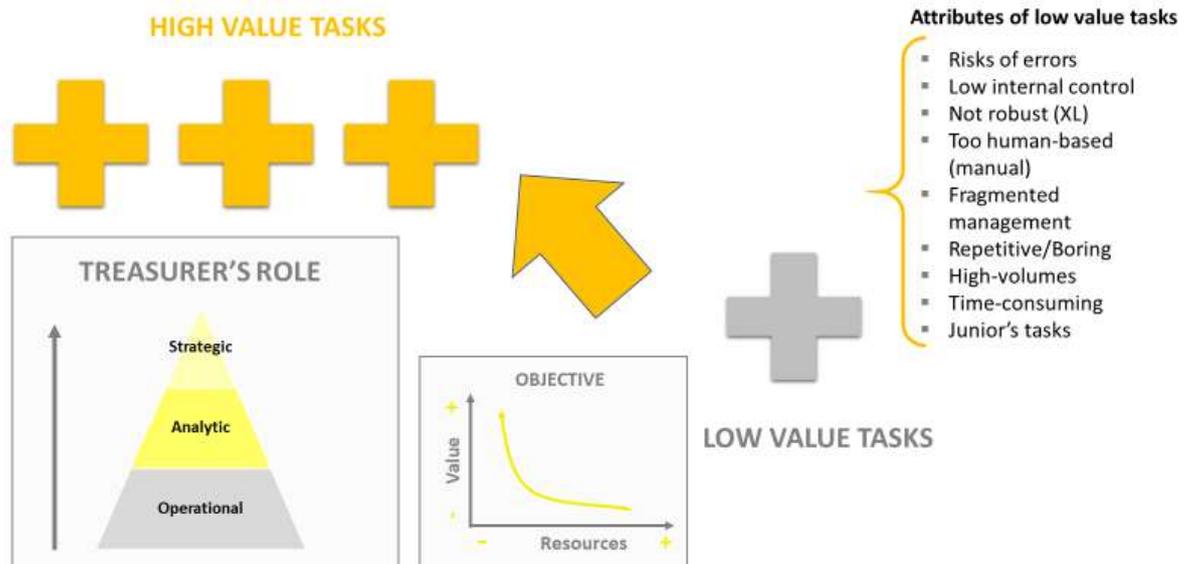
How to assess savings and added value?

It is always difficult for treasurers to determine how much a project can save and, above all, how much time they will save. Although it is key to know the time saved, which will be allocated to other tasks (ideally with more generation of value). Ideally, time should be freed up by automating repetitive, low-value, manual and ungrateful tasks, to focus on higher value-generating, rewarding, individualized, technical, and thought-provoking tasks. But often we would like to know to which tasks this "newly available time" will be allocated. How can I prove that we can achieve more than just financial gains, for example, to automate my foreign exchange hedging process by using a computer tool? The cash gain from this automation can be rather easily calculated. The gain of a more efficient and systematic hedging strategy seems obvious. However, how can we go beyond the quantitative (cash) gain to also demonstrate qualitative gain, which are always more complicate to

estimate? Quality gain will result in less risks of error, more internal controls, solid audit trails, less reliance on fragile XL files, less human dependence, etc. Time saved helps removing pressure on teams often understaffed and under pressure, especially after the health crisis. But quantifying these gains remains extremely complicated and requires assumptions. I recommend estimating the hours saved at an estimated daily rate of an employee (all-inclusive) divided by 8 hours. One, two, three errors per semester, per year, etc.. (based on past records or statistics) can be estimated (taking into consideration costs of past errors) and then you can assign them a lump sum cost. We must make reasonable and fair assumptions in order not to be challenged or questioned on them.

The second question relates to the allocation of time saved on the one hand to other tasks. How do I assess it? Again, we should fairly estimate it. One way to do this would be to allocate a daily amount of cost multiplied by a factor of profitability. An employee costs XXX EUR per day and if it is estimated that the value of his/her analysis work (time reallocated) is at a coefficient of 0,75 or 1.50 (to be defined) the cost is multiplied to get an idea of the gain.

ADDED VALUE GENERATION & BETTER RESOURCE ALLOCATION



From operational towards strategic level

Leaving the operational level for the analytical or even strategic level is the main objective of this type of project. On a pyramid of activity, the base consists of heavy, repetitive, sometimes manual, and voluminous tasks. The idea is to devote more time and resources to analysis and ultimately even better, to dedicate more time to strategic tasks. Let's take again our example of currency risk hedging, rather than hedging foreign exchange exposures, isn't it better to analyze the results and the relevance of the FX strategy in place or even more adopt a dynamic hedging policy? Isn't it better to build a real-time dashboard with alerts on market movements? Think about the value of a better IFRS 9 hedge accounting reporting. What is the most useful: to place foreign exchange instruments' orders and to hedge, or to

analyze the applied strategy results? It is also a motivating factor for employees, useful in keeping them on the team. The more rewarding a job will be, the more loyal the employee will become. Automation can magically help boosting junior treasurers' motivation and give them better quality tasks.

How to calculate ROI and potential gains ?

The difficulty lies in the combination of quantitative and qualitative elements. The former (i.e. quantitative) are measured and assessed based on realistic and fair assumptions. If you automate a hedging process (usually highly manual – semi-automated), you can easily estimate the gain. The time spent on production and reporting can be translated into hours and therefore into EUR of savings. The latter (i.e. qualitative) should be based on assumptions, which should also be reasonably encrypted. For example, to stay on the foreign exchange risk, strengthening internal controls generates gains. By reinforced internal controls, a company mitigates significantly risks of errors and frauds. One could figure it by estimating the cost of a non-hedging strategy (what if you do not hedge at all? based on past data). Or we can assess a staggered hedge (for whatever reason) with a movement of XX pips on the exchange rate. Automation of processes means possibility to be more dynamic in its management, more precise and eventually more accurate. For the risk of error, including the overuse of spreadsheets, the method would be to estimate the cost of a past error. Look back to what already happened to estimate what could

come and how much it would cost. Take assumptions of for example one or more errors per year depending on the past frequency observed. If you sell an amount of currency you should have bought, you will easily lose thousands of EUR equivalent. The motivational aspect is even more delicate to estimate, but real. Qualitative gains can be mentioned in a ROI (i.e. Return On Investment) without quantifying them, as long as it is explained. Narratives are frequently used for ROI to complement benefits of a solution. For the gain generated by the time "released" on repetitive tasks, you will dedicate it to producing value elsewhere. That must be considered as well. A ROI should not be perfect but based on realistic and defensible assumptions. If you are challenged by C-level, you must be able to explain fairness and relevance of assumptions taken or give examples of problems encountered in a recent past. Qualitative gains can be measured or at least listed. Finally, it is a good place to figure out what time you are going to spend on other tasks. Describe these more analytical or strategic tasks to highlight the benefit for the company.

ROI's are always difficult to build

ROI's are never easy to build as they are based on assumptions that are not always easily to identify and to justify. The dual character (i.e. qualitative and quantitative) of such an exercise makes it complex. Nevertheless, they are necessary for internal regulation reasons (i.e. audit) and for getting buy-in from management. Assessing the ROI of a project is virtuous and remains a best practice for treasurers.

And by doing this exercise it forces the team to consider the whole process and to review pain points and costs for reducing them. If I had to give a piece of advice, I would recommend to also discuss with peers and even with IT vendors to see how others did. Very often the level of the assumption is not a key factor. The ultimate end-result should not be depending on assumptions. The benefit should remain sufficient compared to the investment planned. By not assessing in money value the qualitative gains a project, you can always argue that quantitative ones are self-explanatory and sufficient to justify the project investments. Therefore, the qualitative gains (non-estimated into money value) would be the cherry on the cake or the last decision factor to achieve convincing C-level of the pertinence of the project.

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