

# Can the crisis make treasury stronger?

Key findings



## A far-reaching new global survey examines how treasury teams responded to the financial crisis and how they can emerge stronger from the experience. Here we summarise the key findings of the survey and their implications for treasury teams.

'PricewaterhouseCoopers' Global Treasury Survey 2010' looks at why some treasurers have been able to weather the storm better than others; assesses the long-term impact of the market dislocation and how the profession can turn the experience to its advantage. Nearly 600 treasurers from around the world took part in the survey, bringing together the widest possible spectrum of industries and company sizes, which makes this one of the most representative global surveys of its type in recent years.

Dealing with the upheaval, including the impact on funding, commodity price volatility and financial counterparty risk, has provided the sternest possible test for treasury teams. Yet, it has also brought the work of treasury to the forefront of the boardroom agenda and therefore created a once-in-a-career opportunity to raise the status and influence of the function within the business.

### Crisis underlines need for more investment

**Enhanced status:** Nearly 80% of survey participants believe that their key role in managing the impact of the crisis has earned them greater attention from their Boards and more than 60% see it as reinforcing their reputation for adding value within the business (see Figure 1).

**Failing to capitalise:** However, despite the raised profile of treasury teams and the sharply increased demands placed upon them, less than 20% of participants have been able to secure extra resources as a result of the crisis (see Figure 1).

**Budgetary constraints hold back best practice:** Figure 2 indicates that corporates were already focusing closely on liquidity and funding in our previous survey in 2006, with bank relationships topping the agenda. The similarities in the key priorities cited in our 2006 and 2010 surveys (funding, cash and risk management all featuring in the top five) suggest that a consensus on best practice had emerged prior to the crisis. Where this was applied treasurers were better able to manage the impact. However, the budgetary constraints highlighted in Figure 1 have made it difficult to apply best practice effectively.

**Adding value:** Participants see working with the business to manage risk more effectively as their main opportunity to add value over the next five years. However, providing frontline teams with more advice and support is likely to require additional investment, both directly in analytical systems and the people to run them and in the automation needed to improve process efficiency and hence free up more time to work with the business.

#### PwC view

While the pain of liquidity pressures and market instability is still fresh in CEOs' and CFOs' memory, now is the time to press the case for sufficient resources to implement treasury best practice.

Figure 1: What did the crisis do for you?

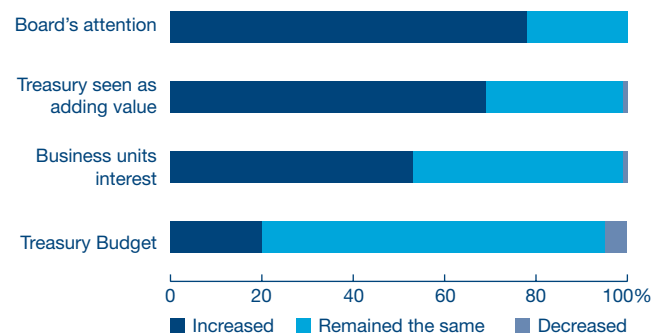
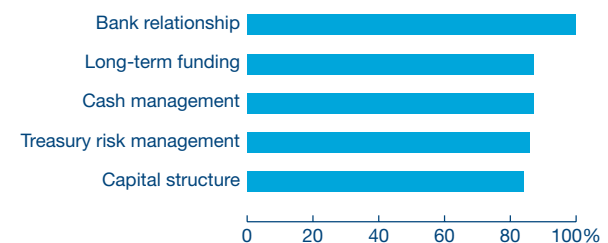
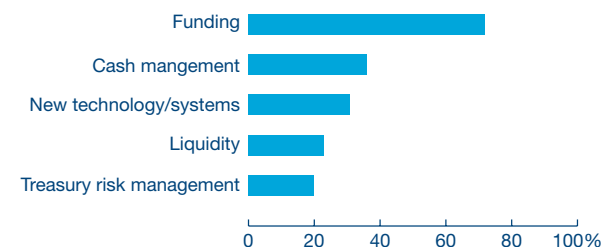


Figure 2: Then and now

#### Top of the treasury agenda in 2006



#### Top of the treasury agenda today



'Our key focus is to understand and hedge market risks together with the business and to optimise utilisation of our cash.'

Survey participant

## The changing dynamics of bank relationships

**Conflicting priorities:** While treasurers want to build long-term portfolio type relationships with their banks to help sustain funding, most believe that banks want to move to a more transactional approach (see Figure 3).

**Are you really Tier 1:** More than 60% of participants believe they are ‘Tier One’ clients for their banks and therefore in line for preferential funding and pricing. Can such a high percentage really be the case?

**Push and pull:** Treasurers face the particular dilemma of wanting to place their business with a small selection of banks to help secure funding on the one hand and diversify their banking panel to reduce counterparty risk on the other.

### PwC view

Treasurers need to develop scorecards to measure how much revenue/profit is made by the banks on the overall relationship. This will allow them to develop a more transparent and reciprocal relationship that highlights the mutual value being created for both sides.

## Earlier warnings required

**Counterparty risk gains in sophistication:** Counterparty risk is in treasurers’ sights, with more than 80% of participants viewing it as either a medium or high priority. Best practice is evolving in line with this sharper focus. As Figure 4 highlights, many participants now augment credit rating monitoring (which many believe is now too slow) with more real-time indicators such as CDS spreads, equity prices and bond yields.

## Keeping on top of commodity risk

**Managing volatility:** As energy and raw material price volatility increases, responsibility for commodity risk management (CRM) is moving from sales and purchasing departments to either treasury or specialist CRM units (see Figure 5).

**More active hedging:** A third of participants take an active or aggressive approach to commodity risk management, compared to 25% before the crisis. This reflects growing recognition of the potential for illiquidity in these markets and/or the structural supply and demand imbalances, which can make a mechanical hedging approach unworkable.

**Synergies unrealised:** Participants may be looking to benefit from potential synergies with traditional treasury responsibilities such as currency risk management, as well as capitalising on treasurers’ experience in the use of financial instruments. However, these synergies are proving difficult to realise. Most participants still rely on spreadsheets for commodity risk (57%), with only 16% using their TMS and 3% a best-of-breed application.

Figure 3: Pulling in different directions

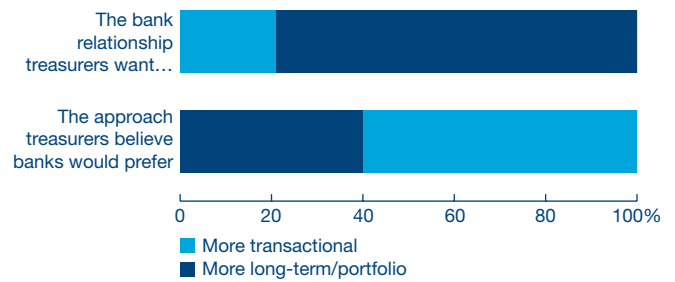


Figure 4: Approach to counterparty risk management

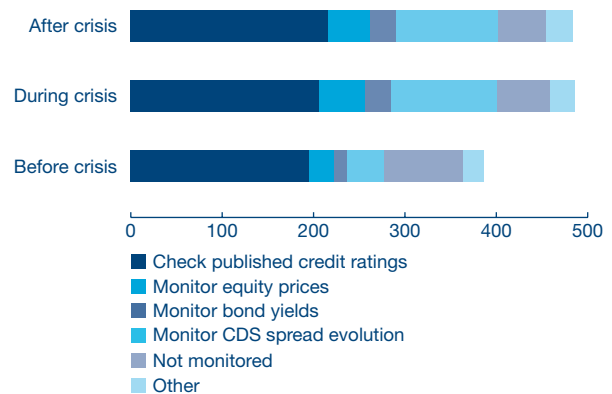
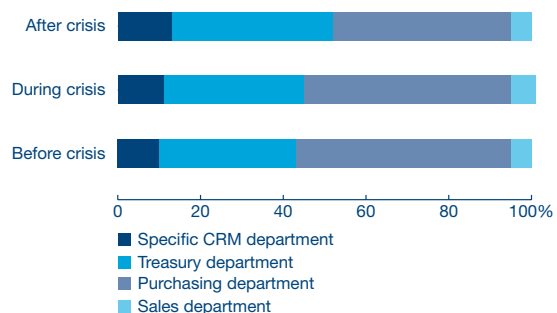


Figure 5: Responsibility for managing commodity risk



### **PwC view**

A standardised, mechanical hedging approach may prove insufficient in highly volatile or illiquid markets. Treasurers need to work closely with the business to understand the dynamics that produce commodity exposures and combine this with a real in-depth knowledge of the markets to develop the optimal hedging strategy.

**‘Our key priorities are to create better insight into financial exposures group-wide and redefine our bank relationship management strategy.’**

Survey participant

### **Full analysis**

For a copy of the full survey report please contact one of our experts listed opposite.

### **Giving you the edge**

PwC has one of the world’s largest treasury advisory groups, providing a broad range of complementary treasury, banking, technology, taxation, accounting, and programme management skills.

Our team has worked with many of the world’s leading corporations to support change in treasury practices and has an enviable track record of successful solutions-based work.

Our team has established an extensive knowledge base of treasury standards of the leading corporations. By combining this knowledge with the multi-disciplinary skills of the team, we provide creative and practical solutions to meet the requirements of our clients.

### **Contacts**

If you would like to discuss any of the issues raise in this summary or the full report please contact:

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