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Treasury KPIs - Critical metrics for a Successful Transformation

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Today's Discussion

1

The Navigation of Transformation

2

What are KPIs and Why are they needed?

3

The Nature of KPIs / Metrics

4

Strategy: Communications & Maintenance

5

Summary, Questions, Appendix

TRANSFORMATION

You can't get there from here

without the right tools

NAVIGATION

To plan, monitor and control the course and position of someone or something from one place to another.

CONTROL

EFFICIENCY

SUPPORT

Treasury's transformation

1

Evolve from tactician to strategic advisor.

2

Link treasury performance to corporate goals and objectives.

3

Increase transparency to others within the organization.

Identify performance shortfalls and inefficient processes.

Analyze and optimize processes.

Maintain.

4

5

6

How does the treasurer lead transformation?

DETERMINE METRICS

Calculation and publication of metrics by treasury organization.

COMMUNICATE

Develop strategy to communicate metrics to organization.

SCRUTINIZE

External scrutiny of plan helps with credibility.

MULTI-PHASE CAMPAIGN

KPIs and/or Metrics

What gets measured, gets managed.

What

- A numerical measure designed to identify and help manage specific activities, financial line items or risk present in ordinary operations.
- Provide an unbiased means of measuring how effectively an objective is met.
- Relevance must be validated periodically.

Why

- Treasury needs to focus on components used to calculate metrics and then determine what could have been done to improve the observed outcome.

A well-designed metric is one that you fail to meet more than you achieve.

Transformation and transparency

Transformation involves lifting the veil of secrecy surrounding treasury.

The positive momentum from improved performance metrics establishes treasury's commitment to excellence.

Increased transparency may be extremely uncomfortable at first.

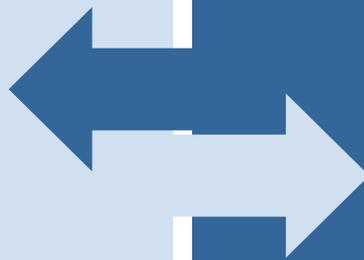
Nature of KPIs / Metrics

Strategic

- Track treasury's contribution to the completion of a new project or achievement of a specific objective.
- Developed on an "as needed" basis.
- Cease being relevant once the project or objective has been completed.

Tactical

- Track the efficiency of processes, minimization of error rates and achievement of target returns on assets.
- Activities are recurring, and continue throughout the organization's existence.



Communication strategy

Effective communication

Present only those measures that are meaningful, and convey valuable information to your target audience.

FOCUS

Limit number of metrics to no more than eight.

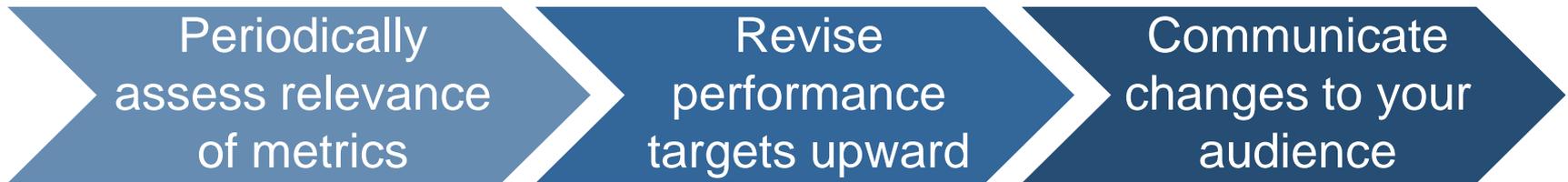
USE GRAPHICS

to facilitate how effectively treasury is performing against its benchmarks.

CONCISE

Make sure the message is clear and easy to understand.

Ongoing maintenance



Summary



Tracking and communicating metrics is a critical part of treasury's transformation to becoming a strategic advisor.



Transparency sets the bar for others in the organization.



Periodically reassess relevance of measures and revise aspirational goals.

Questions

Appendix

Treasury metric examples

Error rate

Accuracy of cash forecasts

- $(\text{Actual cash balance minus forecasted cash balance}) / \text{forecasted cash balance}$.

Accuracy of forecasted investment income

- $(\text{Actual interest investment income minus forecasted investment income}) / \text{forecasted investment income}$.

Accuracy of forecasted interest expense

- $(\text{Actual interest expense minus forecasted interest expense}) / \text{forecasted interest expense}$.

Accuracy of trustee/issuing, paying agent fees

- $(\text{Actual fees minus forecasted fees}) / \text{forecasted fees}$.

Percentage of payments containing errors

- Number of payments by type containing errors / total number of payments by type.
- Number of payments containing errors / number of payments.

Percentage of payments released on time

- Total number of payments released on time / total number of released payments.

Treasury metric examples

Liquidity and cash management

Percentage of daily cash balances vs. forecast

- Sum of daily cash balances/forecasted total cash balances.

Percentage of non-interest bearing cash vs. total cash

- Total balances in non-interest bearing accounts or instruments/total cash.

Percentage of restricted cash vs. total cash

- Total restricted cash/total cash.

Days cash available

- Total available cash/average value of disbursements per day.

Percentage of committed credit

- Total principal value of committed credit facilities/total principal value of all credit facilities.

Treasury metric examples

Exposure management

Variance to market rate at time of trade

- $(\text{Trade rate} - \text{market rate at time of trade}) / \text{market rate at time of trade}$.

Hedge percentage

- $\text{Principal value of Identified hedged exposures} / \text{principal value of total identified exposures}$.

Fixed floating rate mix

- $\text{Total value of fixed rate exposure} / \text{total value of fixed and floating rate exposure}$.

Treasury metric examples

Debt management

Debt mix

- Principal value of outstanding short term debt/principal value of outstanding debt.
- Principal value of outstanding long term debt/principal value of outstanding debt.

Rate vs. benchmark

- “All-in” interest rate on debt instruments vs. benchmark.

Credit available

- Total principal value of drawn credit /total principal value of all credit facilities.

Treasury metric examples

Investment performance

Portfolio credit rating

- Weighted average of issuer credit ratings vs. stated policy benchmark.

Maturity structure

- Principal value of investments at stated maturity intervals/ principal value of entire portfolio.

Return vs. benchmark

- Portfolio's weighted average return vs. benchmark.

Segmentation of investment portfolio

- Total principal of investments by maturity/total investment portfolio.
- Total principal of investments by issuer/total investment portfolio.
- Total principal of investments by type of investment/total investment portfolio.
- Total principal of investments by issuer credit rating /total investment portfolio.

Treasury metric examples

Operational performance

Time required determining daily cash position vs. benchmark

Ratio of system generated payments vs. manual payments

Ratio of electronic vs. paper payments

Number of bank accounts with non-relationship banks

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Dick Sherrod is a Global Business Solutions Treasury Practitioner executive for Global Treasury Solutions, where he is responsible for advising key clients on building best practice operations for multinational, large and mid-sized corporations and financial institutions.

In this role, Sherrod consults with clients to improve working capital effectiveness through process improvement. Sherrod also helps clients develop long-term strategic plans and revenue-generating solutions. His expertise includes bank relationship management, Sarbanes-Oxley compliance, documentation, treasury and liquidity structures, security controls, financial software, cash forecasting methodologies, shared service centers and ERPs.

Prior to joining Bank of America Merrill Lynch, Sherrod was an executive director at J.P. Morgan Chase where he held a similar role. Prior to J.P. Morgan Chase, he had senior leadership roles at El Paso Energy, Enron, Hewlett-Packard and Lyondell Chemical.

Sherrod has been involved in treasury management and capital markets for over 30 years. He has lived and worked in Singapore and Bermuda, as well as completed extended work stays in Rotterdam, The Netherlands and Sao Paulo, Brazil.

Sherrod has a B.S. from the University of Tennessee and an M.B.A. from Houston Baptist University. He resides in Palm Beach County, Florida with a residence in West Palm Beach and office in Boca Raton.

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Danny Doran is a Global Business Solutions Engagement executive for Global Treasury Solutions, where he is responsible for working with large corporate clients to improve their working capital strategies and processes.

In this role, Doran works closely with clients within multiple industries across the end-to-end working capital spectrum, including core treasury, order-to-cash, procure-to-pay, systems (treasury workstations, ERPs) and liquidity.

Doran joined Bank of America in 2005. He held several positions in the Global Quality and Productivity organization, where he led large-scale process improvement efforts in support of one of the bank's largest operations – Client Delivery and Services. Doran was a key member of a “people-centered design” innovation team, which led to the development and launch of a revolutionary client engagement and product training process for treasury clients.

Prior to joining the bank, Doran held several operations and business process improvement roles at Xerox Corporation, supporting both client-facing and internal operations. During this time, he helped launch and lead Xerox Corporation's first “lean” manufacturing operations. Doran also helped obtain Lean Six Sigma certification for Xerox Corporation, and subsequently participated on the “Rapid Response” team whose charter was to optimize worldwide manufacturing and client-facing business processes.

Throughout his 20-year career, Doran has specialized in process improvement and manufacturing methods. He is a Six Sigma Master Black Belt and holds a B.S. in Engineering from the Rochester Institute of Technology. He received an Executive MBA from the University of Rochester. Doran resides in Charlotte, North Carolina with his wife and two children.

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