
A Guide to Hosted Solutions in Treasury and Cash Management

Joergen Jensen, Nasarius - 14 Apr 2009

As the corporate computing world moves towards the widespread adoption of hosted application services, the pockets of resistance that remain in the cash management and treasury functions are showing clear signs of surrendering to the inevitable.

While treasurers are understandably risk averse, and historically prone to holding back on new technologies, the benefits now offered by the application service provider (ASP) and software-as-a-service (SaaS) models have become impossible to ignore.

Treasurers' main concerns have been that hosted data could get lost or corrupted, competitors or other third parties could get access to their data, access to the system could be compromised in critical situations, and there would be a lack of integration with internal systems, such as general ledger and accounts receivable (A/R) and accounts payable (A/P).

But the success of hosted services implemented elsewhere in their companies, as exemplified by Salesforce.com, provides them with clear proof that something as crucial to a business as its customer database can be safely and securely managed with an application residing thousands of miles away on a service provider's servers - with connections via the Internet or dedicated leased lines.

So, if a SaaS CRM system such as Salesforce.com is deemed secure for the company's crucial client data, then it must also be secure for its treasury data. After all, if push came to shove, most CEOs would rather a list of bank balances were leaked to a competitor than his client list.

ASP vs SaaS

Both ASP and SaaS are hosted solutions where the application is run on hardware provided by the solution provider or, more typically, in dedicated server centres run by specialists. While each model has its own merits, there is an important difference between the two, but unfortunately not all systems providers use the correct terminology.

In general, SaaS customers run on the same application version and use the same underlying database, with safeguards in place to ensure that clients have no access to each other's data.

ASP solutions are hosted individually with each customer having a separate database and its own version of the application, but they would normally share hardware with other systems to reduce hardware costs. Many ASP solutions are accessed via Citrix.

Another way of looking at the two approaches is to understand that, generally speaking, systems that were designed to be delivered as a hosted application are SaaS applications, whereas ASP is an easy way to provide existing systems in a hosted environment.

ASP solutions offer greater possibilities to customise and tune the solution for the individual client, but that also increases the overhead for the application provider and thus makes the solution more expensive to run.

This doesn't mean that SaaS solutions cannot be customised. Most SaaS solutions offer possibilities to customise the installation, but typically delivery of new versions of the application is done at the same time for all clients, with no choice for the client. This also cuts down on the number of versions that the provider has to maintain and therefore the provider can better serve the client and ensure a bug-free application.

Most of the hosted treasury and cash management solutions offered today are ASP-based.

Secure Hosting

Treasurers rightly will demand a secure environment for any hosted solution, and for that they can rely on a SAS 70 Type II certificate, which ensures that the hosting company has procedures to protect their customers' data. Virtually all hosted solutions are now certified for SAS 70 Type II, an auditing standard developed by the American Institute of Certified Public Accountants.

Contracts

Most hosted solutions are run on third-party hardware, which in turn is housed and managed in large data centres serving many clients. While some clients will need to sign a separate contract for the hosting with the hardware supplier, the most common model sees the client sign just one contract with the solution provider that covers the supply of the service, hardware and hosting.

Integration

Data needs to go in and out of the hosted system. The fact that it sits outside the company's firewall could make integration with internally managed systems more complex, but not so much as to limit the way it will communicate with existing internal systems, such as accounting, A/R, A/P or human resource systems.

On the other hand, integration to external banks, dealing platforms and financial information services might be easier and less costly because it is easier for the provider to standardise the interfaces in a hosted environment.

What to Look For

No system is infallible so it pays to understand the risk. Treasury workflow has daily spikes, for instance, that can potentially lead to bandwidth problems at the hosting company.

Also with hosted solutions you get an added vendor risk. Most vendors are much smaller than the client. Therefore, the client also has to consider what to do in case the software vendor ceases trading.

Treasurers therefore need to demand service level agreements that reflect all these issues, including:

- SAS 70 Type II certification or compliance.
- Up-time and response times.
- Processes for accessing data if the hosting partner or the software supplier goes out of business.
- Access to data even if you switch system supplier.
- Support levels, support time and response time to support calls.
- Assurances about investments in technology (i.e. upgrades) to match future customer needs.

Pricing

SaaS and ASP solutions are normally priced differently to in-house software. The latter typically requires an upfront fee for the right to use the software, and a support or maintenance fee that covers upgrades and bug-fixing.

Hosted solutions are normally priced on usage, which can be based on volume, number of transactions, value of transactions, number of modules, number of users or any combination of these. These figures are then used to calculate a monthly or yearly fee.

Added Value of Hosted Solutions

The value of SaaS and ASP solutions go well beyond issues of technology and reduced up-front investments. Optional services, such as processing support, additional data or premium support hotlines, not only add a great deal more value to the basic hosting package, but also provide clear differentiators to in-house solutions and treasury solutions from the big enterprise resource planning (ERP) vendors.

In addition, implementation is usually faster on hosted solutions and problems are solved faster as the provider has easy and direct access to the system and data to identify and solve the problem. Hosted solutions also reduce the demand for stretched internal IT resources (especially at smaller corporate treasuries), which are spared the task of installing and running the system, while still being involved with the interfaces to other internal systems.

Using a hosted system also encourages the usage of a single global treasury platform across the enterprise. This single platform reduces the need for the maintenance of multiple systems or databases by IT and does away with the consolidation and reconciliation work required if you use a multitude of systems within treasury.

Vendors that ignore the hosted market or only think of it as a cheaper way to deliver their systems may in the near future discover that the market has shifted and prospects will be demanding more than just software applications. They will want the solution supplier also deliver data and information, connectivity at the flick of a switch, as well as process support and analysis, and much more. The creative vendors will be well placed to take advantage of the change in demand.

Major Vendors

Several systems in the treasury space are actively delivered as hosted solutions. Here is an alphabetical list of the biggest application vendors operating internationally that supply systems to the cash management and treasury departments. ERP systems have not been included as they normally are run on the same hardware as the accounting system and therefore don't lend themselves to be hosted separately.

Bellin is selling its tm5 product with ASP as an optional delivery method which about one-third of its clients have opted for. It can be bought or leased regardless of whether the solution is hosted, which incurs an extra fee. Clients can choose between two alternatives for the hosted solution: a basic version and a version with more security and more hotline support. The ASP option is chosen by the clients because of the lower cost.

City Financial's eTC is a fully web-enabled product also available as an ASP option that doesn't require Citrix for connectivity. Even though City Financial is a relatively young treasury systems provider, the product was not designed originally to be a hosted system.

Ecofinance not only offers to host the solution for their clients, but they have also several banks as customers. These banks use the application to offer their corporate clients an extra service by providing simple and secure access to cash management, cash pooling and treasury management systems. Ecofinance's application is installed and hosted by the bank itself.

FXpress advertises its FIRST system as a fully web-enabled ASP solution for which clients need only a browser to access the system. Included with the application comes rates from Reuters Investor. Should the client wish rates from another source, that is also possible. The system can also be installed in-house if required.

GTreasury (previously known as Gateway Systems) offers its cash management solution in three different modes. Customers can choose to install it in-house, use it in a SaaS environment or have an ASP installation. GTreasury has banking clients run the application in the SaaS mode. The banks then use it to supply extra services to their clients. Today, 90% of the sales are the hosted versions.

IT2 lets its clients choose between different delivery options. Most IT2 clients continue to host the system in-house. If a client chooses the ASP version IT2 also gives the client the choice of hosting partner. They can either choose IT2's hosting partner or use their corporate IT outsourcing partners. IT2 wants to concentrate on the software aspect of the business and does not want to get involved in supplying services such as rate feeds.

Kyriba is a pure SaaS solution that is only offered as a hosted application. It is a relatively new system designed from the start as a hosted SaaS solution, so the company have been able to take full advantage of the technology. A free rate feed is included with the platform, and there's an option to integrate to other providers through a client-specific interface. Kyriba is now also a SWIFT Service Bureau and can therefore also offer an additional SWIFT connectivity service from the platform.

Reval offers its hedge accounting solutions purely on a SaaS basis. Reval takes advantage of the SaaS environment and offers extra hotline help for clients who have problems understanding the results of the hedge accounting process. As it's a hosted solution, Reval staff can easily access the data and analyse the situation to help with any problems.

Speranza Systems sells its Command Centre for bank account management as both a hosted solution and an in-house package. The hosted version is for mid-size corporates and contains best practice configuration. Speranza is partnering with Wall Street Systems to supply bank mandate management for Wallstreet Treasury.

SunGard offers its solutions for the corporate treasury market on an ASP basis under the AvantGard brand. SunGard is also a hosting company so unlike other treasury system suppliers it doesn't have to buy in the actual hosting support, but can get it in-house. SunGard has seen an explosive growth in the uptake of its ASP and hosting offering in the last couple of years. It has now extended the hosting to covering managed services where SunGard monitors the work flow and processes within the systems so the clients only have to release transactions and payments where required as well as dealing with exceptions. As SunGard is also a full SWIFT member, it can offer an extended list of SWIFT services especially around the administration on top of the SWIFT Service Bureau connectivity. SunGard is now examining how it can extend its services and, for example, use the SWIFT connectivity to improve the connection points between SunGard's systems and external systems.

Thomson Reuters developed its new Treasura system for the corporate market as a SaaS solution that can be combined with other services from the group. The base product, for instance, comes with live and end-of-day rates for spot and forward foreign exchange (FX), as well as interest rates for common currencies; other currencies can be bought on top of those. Subscriptions are also available for security prices, credit default swaps, commodities and equities. Treasura also offers dealing via Reuters Trading for Foreign Exchange (RTFX), as well as other services from the group such as instant messaging.

Wall Street Systems' product for the medium-sized corporate treasury, Wallstreet Treasury, is today almost exclusively sold on an ASP basis, although it's being marketed as a SaaS solution. The company has partnered with specialist solution providers to offer extra functionality in the ASP environment, such as hedge accounting and bank connectivity as added services to the core functionality. Wall Street Systems has had little success so far selling its top-end product for the corporate market, Wallstreet Suite, on a hosted basis.

Weiland Financial Group has taken full advantage of the hosting for some of its products. For example, it offers to do the specialist work of analysing the bank fees for its clients with the hosted BRMEdge Outsourcing solution. This is a good example where a software provider

not just provides the same software in a hosted environment but also adds a service - in this case the back office work of analysing the bank fee statement for its correctness.

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Posted by:	Post
14 Apr 2009 - 15:44 Consultancy/ Legal, United Kingdom	What about Citibank's Treasury Vision??? Works well for me....
14 Apr 2009 - 20:39 Consultancy/ Legal, Germany	<p>I haven't looked at the solutions that banks offer to their clients or included them in the survey. These solutions are definitely useful additions to the services that banks offer their clients. However once a corporate reaches a certain size they would like to be bank independent and prefer not to rely on a system from the bank, but prefers to take a cash management and treasury solution from an independent provider.</p> <p>Many of the vendors I have covered actually deliver systems to banks which the banks then white label and promote to their clients under their own branding.</p> <p>Kind regards, Joergen Jensen</p>
15 Apr 2009 - 07:29 Consultancy/ Legal, South Africa	<p>Hello Joergen,</p> <p>I hope you are keeping well, we have had some interaction a few years back in the ERP vendor space.</p> <p>You have excluded ERP vendors providing an ASP Treasury service. I am currently looking at the feasibility of providing this service using one of the worlds leading ERP vendors Treasury and Risk Management software. I feel that making use of the vendors technology of Web-based, open integration and application platform that serves as the foundation for enterprise service-oriented architecture cannot be ignored along with sound functionality in the Treasury product.</p> <p>There are certain challenges, although none at this point seem to be insurmountable. I believe that this may be a space to watch in the near future.</p> <p>Kind Regards Rory Meleniclis</p>
15 Apr 2009 - 14:33 Consultancy/ Legal, Germany	<p>Hello Rory,</p> <p>I excluded ERP vendors because if a company chooses to use the treasury software from an ERP vendor they usually go for the treasury system from their dominant ERP vendor. The ERP vendors haven't hosted their treasury applications separately either.</p> <p>However, I know of at least one company in the asset management space that is using SAP's Financial Asset Management (FAM) to manage and control the back office process for securities and loans for institutional investors such as insurance companies and pension funds. SAP FAM is equivalent to SAP Treasury and Risk Management apart from the regulatory reporting module and the loans management module.</p> <p>I still haven't heard about any company or bank using any of SAP Treasury application or any other ERP vendor's cash management or treasury solution in a hosted environment to provide application services to 3rd parties.</p> <p>Your plans to host an ERP vendor's treasury application (I assume it is SAP) and sell it as a service to 3rd parties are interesting and I would be interested in learning how it goes.</p> <p>Kind regards, Joergen Jensen</p>
16 Apr 2009 - 14:15 Financial Technology Provider, United Kingdom	<p>Hi Joergen,</p> <p>I would like to see you comment on how these "hosted" systems are financed. The default expectation is that one would avoid large licence fees for use of the software and instead pay a monthly/quarterly rental. But I understand that is not the case with all of these "hosted" ASP/SAAS offerings.</p>
16 Apr 2009 - 17:20 Consultancy/ Legal, Germany	<p>Hello,</p> <p>I am not 100% sure that I understand which financing you are referring to, but I assume that you refer to how the clients of the treasury solutions can finance their acquisition of the solution.</p> <p>As I wrote in the article when solutions are hosted the vendors work normally with fees based on the usage of the system. It can be calculated on the number and type of users, modules, transactions, or legal entities in the system or any combination of these. This of course means that the client doesn't have to pay up-front for the license or hardware and thus they don't have to get a budget for the purchase. This also helps to lower the barrier to get the acquisition of a professional cash management and treasury solution approved by the CFO/budget committee as a big acquisition costs is converted to smaller monthly/quarterly/yearly fees. The vendors, however, require that you sign up for a minimum period such as 2 or 3 years before you can terminate the contract.</p> <p>Some vendors still offer you to buy the system up-front and then only having to pay for the hosting through</p>

installments.

But you should not forget that you still have an up-front investment in the configuration of the system, adjusting or writing client specific reports, and the training of staff. Depending on the system and your requirements this configuration can also be costly. Generally speaking you can say that the more flexible a system is, the more costly it is to implement. So if a vendor during a system demo often tells you that "this or that" can be configured or a report can be written, you know that the implementation will be costly. However if the vendor says that "this or that" is not part of the system but you have to take it as it comes, the implementation costs are likely to be limited.

I hope this helps.

Kind regards,
Joergen Jensen