Market Commentary

New trends drive treasury management for financial institutions in 2021

As a light at the end of the COVID-19 tunnel emerges in 2021, the question on the minds of most banking executives will revolve around readiness and whether current systems and processes will continue to support the post-COVID working environment and how they will manage new challenges as they arise.

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Below are the prominent treasury trends facing financial institutions in 2021 to help guide strategy and technology adoption.

Better quality tools for managing liquidity

Recovery and survival will be the main drivers of strategy for most financial institutions in 2021. As they seek to undo the negative impacts of the COVID-19 pandemic, many will be looking for ways to contain costs and manage profitability.

AI, for example, can process large amounts of data and then use historical inputs to predict future cash flows.

AI and machine learning will also need to play a bigger role in credit assumptions, replacing gut feel with science and more accurate credit decisions.

Security takes more than a patch

As financial institutions turned to remote work environments in 2020, onsite deployments began to show their age, revealing vulnerabilities and security risks. A report by Deloitte indicates that the number of cyberattacks in the form of viruses spiked 131 percent in March as business transitioned teams to remote work environments.[1]

Technology adoption will likely pave the way toward tighter treasury management as new tools, such as artificial intelligence (AI) and machine learning provide ways to better predict and manage liquidity.

Even some cloud-based tools designed to support remote collaboration were not free from issues. In April, CPO Magazine reported that a half a million Zoom user accounts had come up for sale on the dark web.[2]

As remote or hybrid work environments continue into 2021, financial institutions will need to ensure secure means for connecting employees. Cloud-based services supported by Microsoft Azure, for example, incorporate two-factor authentication, offering greater security for employee collaboration and financial data.

Regulations continue to drive strategy

The unparalleled credit flexibility offered throughout the COVID-19 crisis is bound to usher in a new era of regulation to ensure successful handling of treasury, particularly liquidity-type events. Adhering to existing and emerging regulatory agendas could stretch banking resources thin.

In the U.S., for example, the turn away from LIBOR continues.[3] A November 2020 statement issued by the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation encouraged financial institutions to select a suitable replacement rate and to institute risk management processes to identify and mitigate transition risks.

Shifting political winds will also play a part in shaping new regulations. As the U.S. largely leads the regulatory landscape, the incoming democratic leadership could usher in a new era of regulation, particularly compared to the former administration's more hands-off policy.

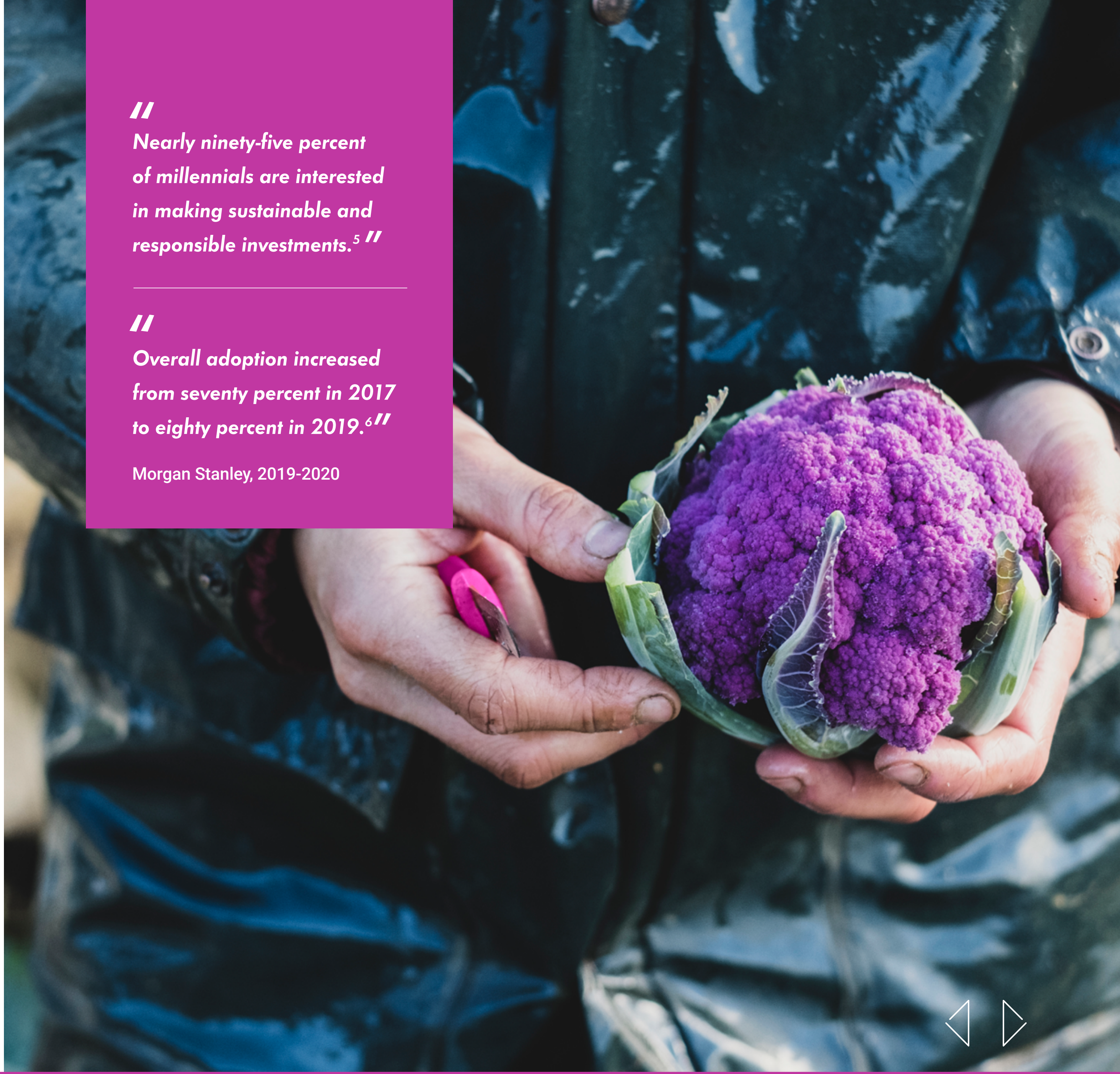
The UK's departure from the EU is another factor to watch, and it will be interesting in the months to come to see how the U.S. and UK now work together to iron out regulatory policies. As the EU continues to add layers of regulation, it is possible that the more open policies of the two countries could work in tandem to provide financial institutions with more flexible environments.

ESG principles continue to shape investment decisions

Given the difficult health and financial impacts of the COVID-19 crisis, socially conscious investing took center stage in 2020. Both active and passive ESG-focused funds reached $71.1 billion during the second quarter of the year with global assets under management hitting $1 trillion for the first time. [4]

ESG investing is likely to remain a hot topic with investors as up-and-coming generations place a greater emphasis on social activism.

The question that arises in 2021 is whether financial institutions are prepared to meet the demand for sustainable investing.



"Nearly ninety-five percent of millennials are interested in making sustainable and responsible investments.[5]"

"Overall adoption increased from seventy percent in 2017 to eighty percent in 2019.[6]"

Morgan Stanley, 2019-2020

2021 The year of ecosystem partnerships

A look back at 2020 reveals how quickly business environments can change and how easily current capabilities can become obsolete.

Coming into the crisis, many operations were held captive by outdated systems and software that could not be adapted to meet the needs of current remote work environments. As a result, we saw a rapid movement toward the cloud as businesses transitioned architecture and systems to secure off-premise environments.

In 2021, savvy financial institutions will take these learnings to inspire new business models focused on increased agility. Financial institutions are likely to continue the movement away from the standard and limiting time-based contract offered by most service providers in favor of partnerships with an open ecosystem provider.

> ***"Seventy percent of corporate treasurers would like to receive a treasury-as-a-service solution from their bank. Sixty-one percent and fifty-six percent respectively would like to receive similar out of the box solutions for KYC and accounting from their financial institution.[7]"***

Ecosystem environments are built to provide financial institutions with product choice, allowing for easy adoption supported by cloud-based APIs. In simplest terms, APIs provide a connection layer between the financial institution and the service provider, making it possible for banks to plug-and-play the solutions necessary to meet current and future needs.

The main advantage of this approach is flexibility. As the financial institution outgrows a product or service, they are free to unplug it and start with a new offering designed to better fit their needs.

Of course, ecosystem success depends heavily on the types of products and services offered by the platform provider. Leading providers realize the necessity of innovation and willingly partner with external sources to develop the breadth and complexity of financial offerings that banks need. This approach positions financial institutions to be future ready, supporting continuous evolution with minimum effort and expense.

Enhanced data management lies at the heart of solutions like these. Currently, many banking treasury management systems are held together by independent data silos, making it difficult to consolidate data for comprehensive insights. APIs, on the other hand, provide a single access point to multiple sources of data, providing visibility across the entire banking landscape to reduce risk through real-time reporting.

Ecosystems also provide a way for banks to easily adopt solutions that can be offered to customers, kicking up revenue generation strategies. As the current low-rate environment continues and financial institutions face continuing regulation, ecosystem partnerships will open new opportunities for financial institutions to reach new goals, despite a challenging environment in 2021.

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