TMS and ERP Best Practices for Treasury

When transitioning to or upgrading Enterprise Resource Planning (ERP), companies should involve the Treasury group early on, look at its technology stack, and approach the strategy to elevate its processes and give the business an architecture that will reduce risk, increase automation and straight-through processes, and eliminate redundant data entry.

Traditionally, integration between an ERP system and a Treasury Management System (TMS) were focused on exports of General Ledger (GL) entries from a TMS to the ERP. The evolution of technology has introduced additional functionality for these systems to integrate, which offers several benefits, particularly for managing cash, liquidity, payments and financial risk more effectively. Here's how integrating these systems can enhance financial management:

- Improved Cash Flow Management
- Accurate Forecasting and Budgeting
- Better Risk Management
- Enhanced Compliance and Reporting
- Payments Visibility Across the Organization
- In-House Banking (IHB)
- Streamlined Processes
- Scalability and Growth
- Increased Automation

1 Improved Cash Flow Management

A TMS is designed to handle treasury-specific tasks such as managing daily cash, investments, debt, FX, and payments. It provides detailed and timely insights into cash and investment positions and liquidity throughout the day for funding decision-making, while an ERP focuses on longer cycles (monthly, quarterly) and requires a more strict reconciliation process.

2 Accurate Forecasting and Budgeting

It is important to consider the ERP data in the TMS projections. Usually, this integration ensures visibility into AP and AR information. Accurate and up-to-date data from the ERP system can enhance the precision of projections and financial forecasts managed by the TMS. With that said, for a complete set of data for forecasting, the ERP data is insufficient, so the TMS further aggregates other data such as tax, debt and investments, and uses the tool's AI and other features to enhance the forecasting analytics and accuracy.

3 Better Risk Management

Exposure data from the ERP aligned with TMS capabilities for deal maintenance, settlement, mark-to-market, and track performance is the optimal design that gives Treasury the agility required to identify and mitigate risks more effectively.

Improved Deal Maintenance

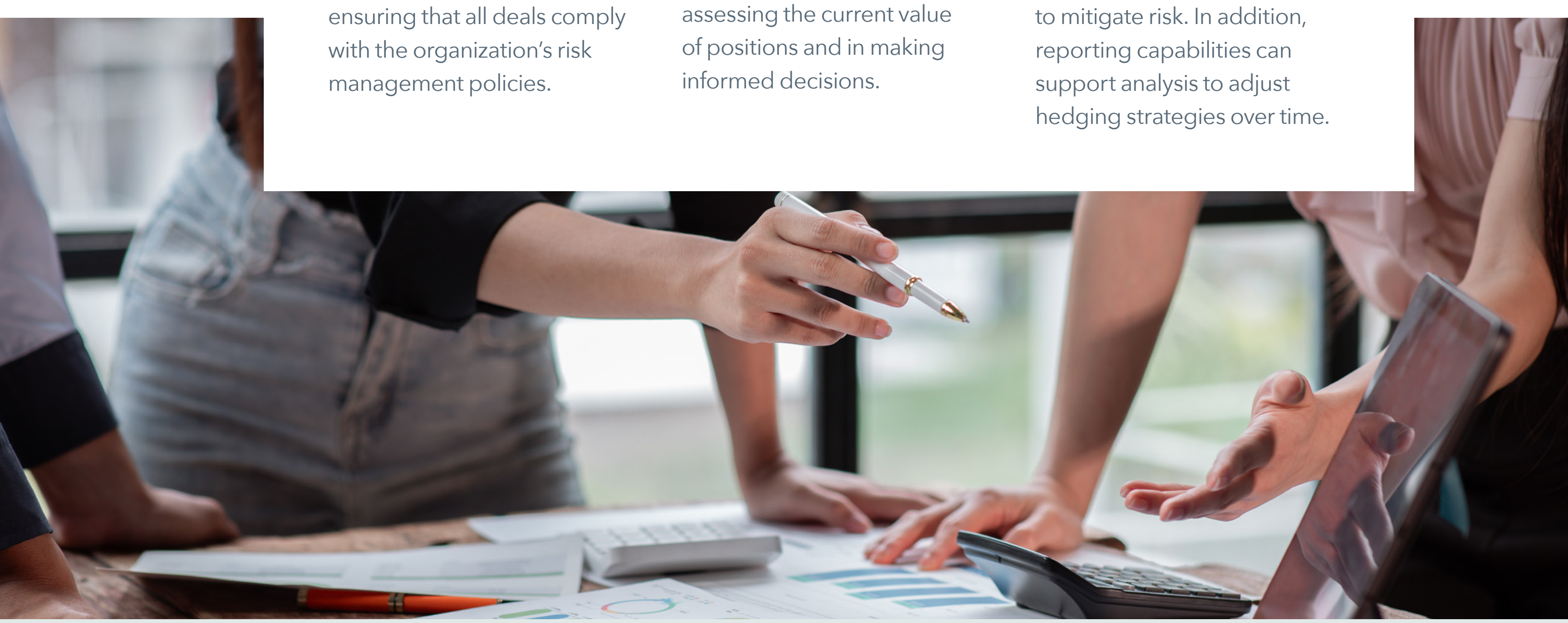
Integration with trading platforms to the TMS allows for automated workflows that can streamline the process of deal capture, approval, and execution. This reduces manual errors and supports ensuring that all deals comply with the organization's risk management policies.

Accurate Mark-to-Market (MTM) Valuations

An integrated TMS can pull real-time market data and apply it to financial instruments held by the company, providing accurate MTM valuations. This helps in assessing the current value of positions and in making informed decisions.

Risk Exposure Tracking

The integration allows for continuous monitoring of risk exposures across various financial instruments. This ensures that the organization can react quickly to market changes and adjust positions to mitigate risk. In addition, reporting capabilities can support analysis to adjust hedging strategies over time.



4 Enhanced Compliance and Reporting

A TMS often includes features for regulatory compliance and reporting. When integrated with an ERP, it ensures that all financial data used in compliance and reporting processes are consistent and accurate, aiding in adherence to financial regulations and standards.

5 Payments Visibility Across the Organization

Integrating a TMS with an ERP greatly enhances visibility into payments across an organization. The integration between both systems is achieved through:

Unified Dashboard

The integration of TMS with ERP consolidates all payment-related information into a single, centralized dashboard. This allows treasury and finance teams to access real-time data on all outgoing and incoming payments across the organization, irrespective of the business unit or geographical location.

Automated Reporting

The integration enables the generation of automated reports on payments, providing insights into payment trends, discrepancies, and performance. These reports can be customized to meet the specific needs of different departments, offering granular visibility into payment activities.

Standardization Across the Organization

An integrated system allows for the standardization of payment processes across the organization. This reduces the likelihood of errors and ensures that all payments are processed in a consistent manner, irrespective of the department or region.

Efficiency in Payment Approval

By linking TMS with ERP, the payment approval process can be streamlined. Approvers can easily access all relevant information in one place, speeding up the approval process and reducing bottlenecks and disparate processes.

Streamline Payment Formats and Consolidated Payment Channels

With a TMS-ERP integration, organizations can consolidate their payment channels, reducing the complexity of managing multiple banking relationships and payment formats and platforms. This simplification further enhances visibility and control over payments while reducing the IT burden on maintaining several connections and specific requirements.

Fraud Detection and Prevention

With enhanced visibility, organizations can implement more effective fraud detection and prevention mechanisms. The integration allows for better monitoring of payment patterns, enabling the identification of suspicious transactions that may indicate fraud.

6 In-House Banking (IHB)

Tracking IHB in a TMS and feeding the corresponding General Ledger entries to an ERP offers several key benefits.

Unified Platform

By using a TMS, all loan-related data is centralized, making it easier to track, manage, and report on in-house banking activities. The integration with an ERP ensures that this data is seamlessly reflected in the broader financial management ecosystem.

Compliance

Accurate and timely GL entries ensure all transactions comply with internal policies and external regulatory requirements.

Cash Flow Visibility

Tracking short-term loans in a TMS provides better visibility into cash flows, enabling more accurate cash forecasting and liquidity management.

Customization

The TMS can be tailored to meet specific IHB needs, and the data fed to the ERP can be customized to fit the company's accounting structure. This integration creates a robust framework for managing in-house banking short-term loans, enhancing overall financial management and strategic decision-making.

7 Streamlined Processes

Integration automates the flow of financial data between the TMS and ERP systems, reducing the need for manual data entry and minimizing errors. This streamlining helps improve the accuracy and efficiency of financial operations such as reconciliations and reporting.

8 Scalability and Growth

As a company grows, its financial operations become more complex. Integration of TMS with ERP systems allows for scalability, enabling the management of increased transaction volumes, multiple currencies, and expanded financial operations more effectively.

9 Increased Automation

Automating routine treasury functions, such as payment processing and bank account management, reduces manual effort and improves accuracy.

Once the integrations have been developed, the next step is to decide on the integration method. Depending on the systems involved, common options include file-based, API and middleware, all of which have advantages and disadvantages. As such, these options should be evaluated with your requirements in mind. Your system vendor representatives (TMS and ERP) are a good resource to engage and obtain information about these options.

Integrating a Treasury Management System with an Enterprise Resource Planning system enhances financial management by providing comprehensive visibility, improving operational efficiency, and enabling better risk management. It supports more accurate forecasting, streamlined processes, and effective compliance, ultimately improving financial stability and strategic decision-making.