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Treasury function

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Abstract
The purpose of this resume is to explain how treasurers function in both the public sector, banking and private companies. As well as explaining how important the role of a treasurer in a company is for the progress of the company going forward.

Keywords: Treasury Function

1. Introduction

Treasury is one of the financial activities in companies, banking and non-banking, which is related to 3 (three) main activities, namely cash management, cash investing, and payment transactions. The three treasury activities have different goals and objectives. Treasury activities require accuracy, sensitivity, and calculation accuracy.

A treasurer must not only pursue profit, but must also pay attention to aspects of financial risk assessment and the principle of prudence. On the other hand, work units or divisions outside of treasury can work with treasury in terms of making efficient use of company finances so that the cash position is stable and can be used to increase profitability and financial resilience (financial resistance).

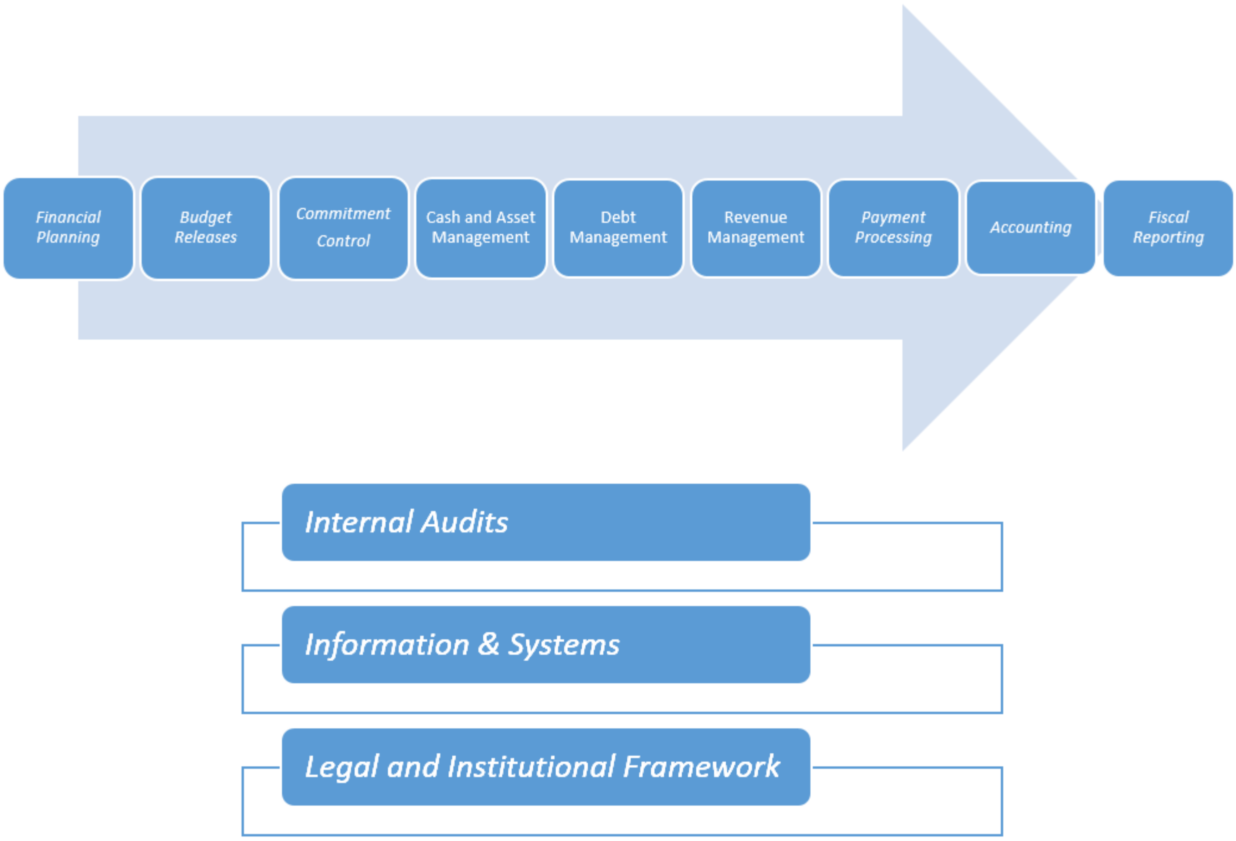
The treasury function between one company and another company is different, because its formation depends on company policy in the preparation or organization of functions within the company. The difference is caused by the size of a company, as well as the complexity of the tasks on the part of the company.

The treasury function develops and develops in a strategic role in corporate financial management. In accordance with the results of a survey conducted by The Association for Financial Professionals (AFP) in 2003 and 2006, it is said that the treasury function in companies is starting to play a more strategic role. Likewise, the results of subsequent AFP surveys conducted in 2011 and 2014 reiterated that the treasury function was increasingly important and focused on cash and liquidity management. Management of company cash is related to the outflows and inflows of the company, while company liquidity is related to ensuring sufficient cash to meet the company's operational needs.

The treasury function in the public sector, in its development, is inseparable from reforming state finances. The establishment of the Directorate General of Treasury did not report the implementation of the state management reform report in Indonesia. As stated in Law Number 1 of 2004 concerning State Treasury, State Treasury is the management and accountability of state finances, including investment and assets as determined in the APBN and APBD.

2. System treasury value chain

According to Tandberg (2005) [2], the treasury system includes various important aspects in public expenditure management. The keys to the treasury system include budget disbursement management, financial planning, control over expenditure processes, government cash flow management, asset and liability management, accounting, including internal audits for budget execution.



Source: Tandberg, (2005) [2]

Fig 1: System Treasury Value Chain

The value chain of the treasury system (Fig 1) is a framework that can be used to identify and examine the components or process stages that are part of the treasury system in a country. Conceptually, the main criterion for determining whether a component or process can be included in the treasury system is the added value in it.

In the private sector, this added value can be estimated as an increase in company profits. In the public sector, determining added value requires understanding more complex concepts, such as social benefits or cost reduction. (Tandberg, 2005) [2].

There are six treasury function duties, including

1. Cash Forecasting

Cash forecasting is the initial role of the Treasury Function, where they are tasked with taking data that has been entered into the system (in organizations including subsidiaries if any), to then combine them to produce cash forecasts (cash forecast) both short and long term.

The forecast in the cash forecast is required for

- Determines whether the company needs more cash. If that happens, they can make a funding plan (financing) either through the use of debt or equity.
- Make an investment plan, if the forecast results are surplus where there is excess cash (excess) that will arise.
- Creating an operating plan that can hedge the company's currency exchange rates with foreign currencies

2. Working capital management

Working capital is the main thing that is important for cash forecasting in a company. Therefore, a good working capital management is needed to find out what working capital is used and what is the influence and relationship with the working capital used in the company.

Working capital management is done by involving changes in the level of current assets in response to the achievement of a company's product sales.

3. Cash Management

The way this is done is by combining information in cash estimates and working capital management. With the aim, the guarantee of funds is sufficient for the operational activities of a company.

4. Investment Management

Each company will invest any excess funds in its cash. However, it must be done properly and on target. With the aim, the results of these investments can be beneficial for the company in the long term.

In investing its funds the company must pay attention to 3 (three) factors including

- Maximum return on investment.
- Match between the investment fund's maturity date and the company's cash needs
- Should not invest company funds for high risk

5. Risk Management

In terms of risk management, Treasury is responsible for creating risk management strategies and implementing hedging to protect the company from all kinds of financial risks, especially in the context of anticipating situations when:

a. Market interest rates soar above the company's bond interest rates against other institutions
b. The position of the company's foreign exchange differences can also be at risk if the exchange rate suddenly deteriorates.

6. Fund Raising

Fund raising with the aim of managing cash and investment is very important for a company to keep its operations running. Funds can be raised from brokers or investment bankers, to investors by investing their capital, so that companies can manage the management of their funds.

Based on the explanation above, the duty of Treasury Management in managing the financial condition of a company is very vital.

3. Important role of treasury function

According to Braley *et al.* (2016) [1], Treasury has an important and growing role in every organization so that treasury must continue to increase added value for the survival of an organization. Braley *et al.* (2016) [1] further stated that there are five key elements that distinguish conventional treasury from world-class treasury, namely:

1. A proactive, not reactive mindset. This means that treasury must consistently be able to anticipate the organization's cash needs and actively maximize the use of cash. Treasury has the authority to speak to every stakeholder in every decision making.
2. Cash-centric organization. Treasurer focuses on the cash flow and cash flow accountability of the organization. Cash planning is made as accurate as possible. Every treasurer has a concern for cash, and decisions are made based on the state of cash.
3. Quality reporting that bridges financial and operational aspects. A good treasury not only functions as a financial information center, but throughout the organization's information so that budget planning and execution are correlated with existing resources.
4. Find the right platform. Effective organizations do not duplicate work, much less do a lot of work manually. Treasurers must create systems that automate routine transactions, information channels, and clear work guidelines.
5. Adaptability. The treasury organization is required to evaluate the current situation and the needs in the future.

The Treasury function in the banking sector is carried out by the bank's Head Office. Therefore treasury activities are carried out for the bank as a whole, so that the characteristics of transactions carried out by Treasury in general are:

- Transactions in bulk (bulk, whole sale)
- Decision making in transactions is usually short-lived because it is through communication means that are generally electronic and some of them are on line, especially in the search and placement of funds.
- Transactions are not carried out face to face, the distance can be between continents. The means of communication can consist of RMDS (Reuter Monitor Dealing System), Telephone and FAX.
- The risk of loss is very high, according to the large transaction value / volume and the facilities used. Errors in translating market information, economic situations / trends lead to errors in analysis and can result in large losses for banks.
- Transactions rely a lot on the expertise of Traders, Dealers and other treasury teams. There are no proposals, appraisals, from externals. There are no collateral in the transaction. However, in treasury risk management, limits are set, both limits on transaction volume, dealer / trader limits, counterparty limits, and permissible limits for risk. Regulated systems and procedures with adequate internal control (adequate). The implementation of internal control is reviewed periodically to ensure that it is still effective in preventing errors, irregularities and possible fraud. Monitoring and control over transactions as well as timely reporting is one of the activities that are continuously carried out in treasury operations.
- Using High Technology. The use of this technology can be a double-edged knife, accelerating / making it easier to carry out transactions, but if it is not equipped with a reliable security system or is not disciplined in operation, it can cause huge losses to the bank (operational risk / fraud risk).

4. Treasury organizational structure

Bank Indonesia does not issue specific regulations related to treasury organizations. However, in the context of segregation of duty to mitigate risk, ideally in treasury management there are several separate work units, namely: the front office (dealing room), middle office (risk management) and back office (treasury operation). , as well as a committee called the Assets Liability Committee (ALCO committee). For more details, it can be seen from the following chart:

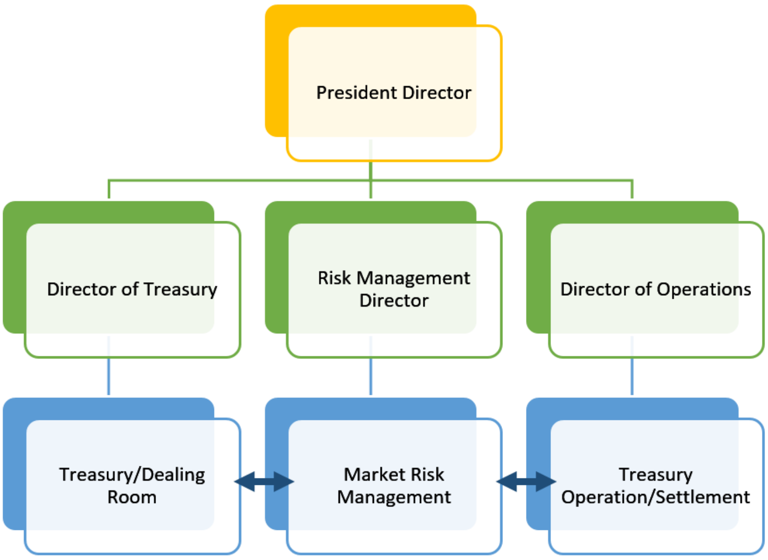


Fig 2

The explanation of the treasury organizational structure above is

1. Treasury / Dealing Room, is a front line unit that conducts treasury instrument transactions or makes direct contact with customers (counterparty). This unit is called the Dealing Room because it is usually placed in a special room to carry out transactions (deals) with the parties (conterparty). This work unit is usually under the director of the Treasury or for a bank that is not so large it can be directly under the president director or other directors.
2. Treasury operation or Treasury Settlement, is a back office unit that processes payment settlement or receipt of administrative payments and documentation, including transaction book keeping.
3. Market Risk Management, a middle office unit that mediates between the front office and back office. This work unit usually formulates policies, procedures and limits and includes setting models in determining transaction limits, such as amount limits, time limits, and tolerable loss limits.
4. ALCO or Asset and Liability Committee is a committee that is responsible for determining strategies and policies related to portfolio management on both sides of the balance sheet, including administrative accounts (off balance sheet) in order to minimize liquidity risk and optimize revenue, including setting credit interest rates and / or third party deposits (current accounts, savings and time deposits). This committee is usually chaired by the chief executive or director of treasury, director of business or credit, director of finance, director of risk management. The head of the treasury unit usually acts as ALCO's secretary.

5. Treasury Evolution

Technological change is opening up opportunities for the treasury function. By leveraging technology, treasury can help organizations streamline processes and reduce manual efforts to gain efficiency, lower costs and enhance control levels.

According to EY, as companies address the challenges of today's fast-changing world, treasury is increasingly asked to support execution of the broader business strategy through a variety of initiatives:

- **Automating treasury**
  Technological change is opening up opportunities for the treasury function. By leveraging technology, treasury can help organizations streamline processes and reduce manual efforts to gain efficiency, lower costs and enhance control levels.

- **Managing accounting and controls**
  As the risk profile of organizations continues to change, there is a growing need to assess, design and implement an effective treasury governance and controls framework that meets specific needs and addresses the evolving regulatory landscape. Organizations must understand and apply the appropriate accounting methods to manage businesses globally as well as domestically.

- **Transforming treasury operations**
  The importance of treasury has steadily increased over the years as it reflects the underlying business strategy of the enterprise. Therefore, it is crucial to have a robust organizational structure with a clearly defined and forward-looking governance supporting the TOM and its treasury vision. This approach can help the treasury function to meet current and future economic and regulatory requirements, streamline processes, and increase efficiencies.

- **Executing corporate transactions**
  Organizations continue to pursue strategic transactions to enter new markets, expand their product lines, rebalance their portfolio of businesses, sell non-core assets, execute the change in their strategic direction, and improve their operating model. As it relates to each strategic transaction, companies value sound decision-making, seamless execution, timely achievement of the financial targets, and reducing the risk of business disruption.

- **Leveraging treasury analytics**
  In our rapidly changing world, the challenges your organization is facing evolve every day. In this environment, treasury is uniquely positioned to address these challenges in support of your business strategy by leveraging analytical tools to protect assets, inform business decisions, unlock cash, finance the business and invest cash.

- **Evaluating specialty treasury activities**
  As companies define their business strategies, treasury functions may be asked to take on new responsibilities, such as establishing a payment entity, factoring receivables, managing benefit plans and real estate portfolio, strengthening payment security defenses, or managing insurance programs. It is critical to identify opportunities to improve the value treasury can create, and work toward establishing the necessary capabilities that will help capitalize on these unique opportunities.

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