

Improving Technology in the Treasury Management System

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ABSTRACT

Treasury management is one of the areas of public financial management (PFM) that has most improved over the last 20 years at the international level, when measured in terms of incorporating new practices and expanding the use of information technology. One of the biggest challenges facing today's treasurers is identifying and implementing the most appropriate technology solution to meet their organizations' needs. As in many spheres, the range of technology available treasurers has become increasingly sophisticated in recent years. Levels of functionality that were unimaginable a few years ago are now standard. As a result, understanding the most appropriate options for a treasury has become significantly more difficult.

KEYWORDS: Trade finance, technology, treasurers, technology installation, the treasury management system, risk management tools, budget organization

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Trade finance is critical to the survival of a lot of businesses, and it can also be incredibly difficult to obtain. Trade finance, which is sometimes referred to as supply chain and export finance, is a crucial tool with which business owners can free up trapped working capital in order to reinvest cash in their business and offer more competitive rates to would-be clients. It also empowers companies to benefit from economies of scale, mitigate various credit risks, improve supplier relationships and bolster supply chain efficiencies. Simply put: trade finance enables companies of all shapes and sizes to fulfill bigger and better contracts, import goods and develop new growth opportunities. Yet as central banks across the globe begin to hike historically rock bottom interest rates and lending becomes more expensive, a lot of established financial institutions are pulling out of developing markets and restricting access to traditional trade finance products. This has created a worldwide trade finance gap of around \$1.5 trillion – disproportionately affecting smaller traders and creating enormous demand for tech-led finance alternatives. Fortunately, a number of enterprising fin techs and incumbent financial institutions are leading

the charge to try and bridge this emerging trade finance gap by utilising big data, AI and distributed ledger technology in order to bring a number of new supply chain and export finance products to market.

By utilising increased digitalisation, distributed ledger technology and artificial intelligence, new product offerings have the power to remove these barriers and create a more inclusive sector. Best of all, many of these changes are already underway. Make no mistake: a lot is going to be happening in the trade finance sector over the next five years – and nearly all of it is going to be tech-led. One of the most powerful drivers to encourage treasurers to review how technology is used is being able to improve operational efficiency. As with all other departments, treasurers are under pressure to reduce their operational budgets. An effective deployment of technology can enable treasurers to reduce “headcount” within their departments, while simultaneously cutting the cost of processing transactions through both automation and the elimination of many manual errors. In treasury, there are three key areas where technology can improve operational efficiency: the capture and collation of

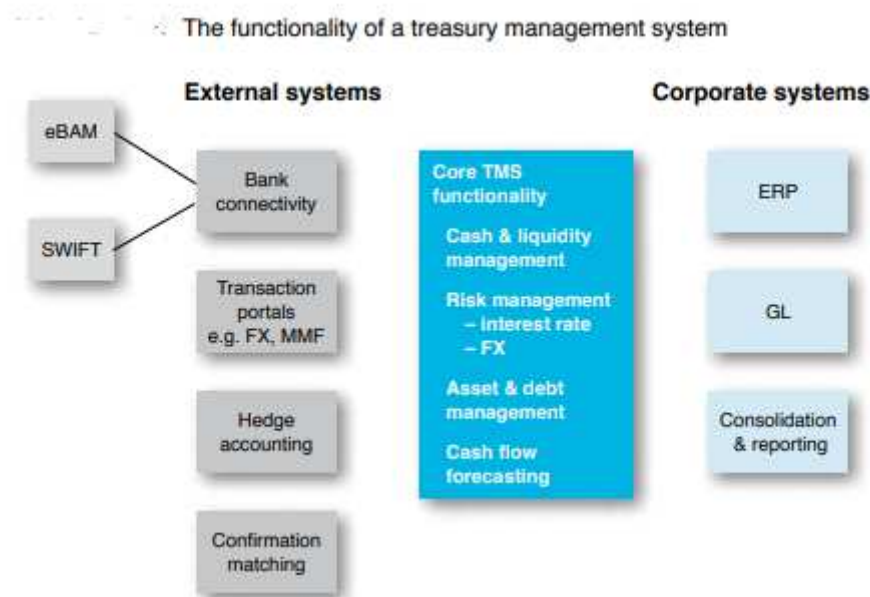
information; the reduction of manual intervention; and providing the opportunity for proactive management.

To be able to do this effectively, treasurers need to think carefully about:

- the roles treasury currently performs;
- how it might be changed as a result of a new technology installation; and
- how treasury might need to develop within the lifespan of any new technology installation (although it is not completely possible to anticipate future developments, as some anticipated changes will never materialize and some unanticipated changes will also appear).

Whenever a treasurer is developing a business case for a technology project, it will be much stronger if the treasurer can be confident that the investment is going to be scalable and not need additional funds in the short term. It is critical to understand the role of the treasury department before trying to identify the most appropriate technology solution to support its work. Although every treasury department is slightly different, most departments will have responsibility for at least the core areas of treasury.

For many budget organisation, the core treasury technology is a treasury management system or workstation. These have evolved over a number of years as the range of available functionality has grown, so that today most systems offer a similarly wide range of standard functionality. Just as important, these systems have evolved from being standalone machines in the corner of the treasury department to systems which can be accessed from remote locations via a web browser. Indicates the depth of functionality in today's treasury management systems. All have core functionality covering cash and liquidity management, financial risk management tools, short-term and long-term asset and debt management and cash flow forecasting, as well as the ability to generate the necessary accounting entries. Many systems now include some of the functionality described below, including the facility to manage netting, in-house banking and payment factories. Some systems also include additional functionality such as more advanced risk management tools and a confirmation matching facility. This functionality is integrated, offering real straight through processing for users across a range of activities.



In many ways, the treasury management system used by the largest and most complex treasury organizations in the world will be the same as that used by a treasury department adopting its first treasury management system. The underlying functionality across systems is broadly the same, in the sense that cash can be managed, treasury transactions can be entered, monitored and reported, and financial risk exposures can be measured and managed. However, there are significant differences in the way each treasury system operates and therefore its relative suitability for a particular organization. These differences arise in two main

areas. First, systems vary in terms of their depth of functionality and the scope for customization and configuration. All systems can perform the core treasury functions, but some can cope with much more complexity than others. In addition, each system has its relative strengths in terms of functionality. Although most treasury departments will choose to take most of the core functionality when adopting a treasury management system, better resourced treasury departments do have more options. Generally, they can choose to adopt a single system, to take advantage of the fully integrated solution supporting all business processes, or to build a

solution made up of a number of best-of-breed systems, offering improved functionality at the expense of a greater requirement for interfacing between these systems.

Treasurers will need technology to simplify an ever more complex task. First, by collating data from partners, both internal and external, technology should help treasurers obtain visibility over cash and identify exposures to risk. Second, by controlling access to that data, technology should help treasurers exercise greater control over all treasury activity. Third, by providing a tool to manipulate that data, technology should help treasurers prepare all the various reports they are required to file: accounting entries, management reports and regulatory reports.

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