The status quo is no longer sustainable. With bank profitability under pressure, treasurers must improve efficiency, optimize financial resource management, and fast-track digitization.

Banks served as an important source of support for their customers and communities during the first waves of the COVID-19 crisis. Now, however,
institutions must see to their own profitability. The pandemic has exacerbated preexisting structural and market pressures and injected new steering complexity.

BCG’s sixth biennial Treasury Benchmarking Survey, conducted over the course of 2020, captured insights from 39 banks across Asia, Europe, and North America, including 13 global systemically important banks (G-SIBs). The findings reveal three core challenges:

- **Margin Compression.** Financial institutions face intensifying profitability pressures, with low or negative interest rates and high operating costs taking a growing toll. To offset these constraints, 83% of treasury respondents said that their institutions have begun—or plan to begin—a bank-wide cost-control program. In addition, more than 90% of those polled said that their treasury functions have imposed negative rates on their corporate clients, and 35% said that their institutions have imposed negative rates on retail clients.

- **Balance Sheet Optimization.** Although government and central bank interventions helped to stabilize the financial system quickly during the pandemic, treasuries now have a different challenge: how to use excess liquidity (and occasional excess capital) to shore up net interest income (NII) while maintaining strong risk and compliance protections. More than 80% of participants stated that balance sheet optimization is a key focus. Treasuries also need to help banks adapt their financial flows to accommodate demand for environmental, social, and governance (ESG) offerings, and they must adjust funding and financial resource management frameworks accordingly.

- **Insight Gaps and Process Inefficiencies.** Most treasury functions have yet to complete (or start) many of the modernization changes that respondents aspired to when we conducted the survey in 2018. As a result, most treasuries are not able to sense and respond to change fast enough, capture and analyze information efficiently enough, or deploy the right set of instruments surgically enough to deliver superior profit and loss (P&L) results within their institution’s specified risk appetite.
These challenges are shaping the treasury agenda. Respondents globally cited three main aspirations for the next few years:

- Adapt the treasury operating model and underlying IT infrastructure to improve productivity and cost performance.
- Optimize financial resource management to strengthen the treasury’s NII contributions and the balance sheet overall.
- Invest in digitization to lift treasury management to the next level of efficiency and effectiveness.

**OPERATIONAL EFFICIENCY GAINS NEW URGENCY**

Our 2020 Treasury Benchmarking Survey revealed that insight gaps and manual-intensive processes still plague many banks, with treasuries globally struggling to gather needed information and perform computations at the speed required. (See Exhibit 1.) Two-thirds of respondents (and 90% of those at G-SIBs) said that they lack accurate data to support balance sheet management. And 42% of participants said that the data needed to complete their work is not available at all.

Exhibit 1 - Despite Infrastructure Programs, Treasuries Still Struggle with Insufficient Information

<table>
<thead>
<tr>
<th>Data is incorrect or I have insufficient information</th>
<th>Calculations used by the risk, finance, and treasury functions vary</th>
<th>Data is not available</th>
<th>Calculations are not fast enough</th>
</tr>
</thead>
<tbody>
<tr>
<td>67% for all banks</td>
<td>52% for all banks</td>
<td>42% for all banks</td>
<td>34% for all banks</td>
</tr>
<tr>
<td>90% for G-SIBs</td>
<td>60% for G-SIBs</td>
<td>50% for G-SIBs</td>
<td>30% for G-SIBs</td>
</tr>
<tr>
<td>60% for large players</td>
<td>60% for large players</td>
<td>40% for large players</td>
<td>36% for large players</td>
</tr>
<tr>
<td>50% for regional banks</td>
<td>25% for regional banks</td>
<td>28% for regional banks</td>
<td>38% for regional banks</td>
</tr>
</tbody>
</table>


Note: G-SIB = global systemically important bank.

“The percentages reflect the share of respondents who answered “agree” as well as “strongly agree.”
Even when treasury employees succeed in amassing the right data, respondents said that teams must then spend time reconciling inputs—often manually—since the calculations used by the risk, finance, and treasury functions often vary. Frustration is mounting, with one-third of respondents reporting that they cannot generate calculations fast enough.

Head count data shows that staffing levels vary widely among treasuries that are of a comparable size when measured by assets, suggesting that productivity also varies widely. Treasuries in the top quartile based on head count have nearly twice the number of full-time equivalents for every €100 billion in assets than do the leanest institutions in the bottom quartile (43 FTEs and 24 FTEs, respectively) with the median coming in at about 31 FTEs. (See Exhibit 2.)

Exhibit 2 - Head Count Varies Significantly Among Similarly Sized Treasuries

<table>
<thead>
<tr>
<th>FTEs per €100 billion in assets, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top quartile</strong></td>
</tr>
<tr>
<td>All banks</td>
</tr>
<tr>
<td>43</td>
</tr>
<tr>
<td>31</td>
</tr>
<tr>
<td>24</td>
</tr>
</tbody>
</table>

Note: n = 39. FTE = full-time equivalent; G-SIB = global systemically important bank.

To improve efficiency and performance, most respondents have ranked operating model improvements and data and IT modernization among their top agenda items. More than half (54%) indicated that having a cloud-based application environment is a key aspiration. Only 6% of treasury respondents work in organizations that have reached this level of modernization today. Participants
from regional banks were also keen to improve their modeling and stress-testing abilities. To enable this, many hope to develop a microservices-based architecture that uses application programming interfaces (APIs) and employs a central data warehouse and data lakes.

EFFECTIVE FINANCIAL RESOURCE MANAGEMENT IS IMPERATIVE

Liquidity buffers have been growing in size even before the pandemic. Since 2019, they have grown by 3 percentage points and now represent roughly 20%, on average, of banks’ balance sheets (23% for G-SIBs). Liquidity coverage ratios (LCRs) have also grown, rising from 139% in fiscal year 2017 to 146% in fiscal year 2019, far above the regulatory minimum of 100%. And while large buffer sizes and high LCRs are often correlated, that was not true at several banks in 2020, suggesting some might be overly conservative in their financial resource management.

Addressing the size and composition of the balance sheet has taken on increased importance in light of declining NII. In recent years, central bank quantitative easing programs, weaker maturity transformation returns, and regulations—such as minimum requirement for own funds and eligible liabilities (MREL) and total loss absorbing capacity (TLAC)—have eroded NII performance, driving average treasury contributions down, from 12% in 2016 to about 9% in 2020.

To optimize the balance sheet, treasurers are placing heightened emphasis on financial resource management. Most have increased their risk appetite across the P&L. (See Exhibit 3.) In some cases, the shifts have been dramatic. Nearly three times the number of institutions elevated their risk appetite for interest rate transformation than lowered it, with many treasurers using that expanded appetite to increase the average maturity of modeled products. And nearly four times the number of treasurers raised their risk appetite in investment portfolio and capital investment than lowered it. Treasurers are increasingly looking at asset classes and securities that have longer horizons for returns and the potential for higher spreads.
The one area where the appetite for risk contracted was liquidity transformation, likely because of concerns about the depth and severity of the COVID-19 crisis when data for our survey was being gathered. Benchmark data shows that the average bank had a net stable funding ratio of 118% for fiscal year 2019 and that TLAC and MREL levels were also above the regulatory minimums by an average of 5 percentage points and 11 percentage points, respectively.

Looking ahead, treasurers will need to consider how to adjust their framework for steering financial resources in order to manage ESG. For example, 97% of respondents indicated that they expect ESG funding to increase. But while 56% said that their banks have launched an ESG issuance program, only one-quarter said that their institutions had set a minimum target for these bonds.

**DIGITIZATION IN THE TREASURY FUNCTION MUST ACCELERATE**

Although treasuries have been experimenting with new technologies at a slightly higher rate than they were in 2018, they are not transforming fast enough. (See
Less than half of the respondents said that their functions employ key aids, such as robotics or machine learning (ML), in a material way. As a result, many forecasting methods remain rudimentary. Eight in ten respondents said that their organization relies on manual inputs from specialists and simple statistical methods, such as ordinary least squares regression. Looking ahead, treasurers are broadly agreed that their target state should enable the use of advanced statistical methods (such as autoregressive integrated moving average with exogenous input) and deploy ML capabilities more fully. (See Exhibit 5.)
The benefits of reaching that target state are significant. Employing ML-driven algorithms can help treasury teams reduce manual labor, optimize the use of collateral, automate buy-or-sell recommendations, and predict client behavior, such as prepayment rates.

Embracing agile working practices will be important to help treasury teams avail themselves of these capabilities. Creating interdisciplinary teams, breaking large projects into smaller sprints, and establishing rapid review-and-release cycles are established ways to speed digitization and adoption—especially in ML use-case development. But while 50% of treasury respondents believe agile ways of working deliver higher-quality outputs and cost savings, less than half say their treasury functions use these methods regularly in their projects.

**PERSISTENCE WILL PAY DIVIDENDS**

Leaders that commit to adapting the treasury function will find their efforts well rewarded. On the basis of our client experience, acting decisively in the following...
areas can boost bank NII 2% to 5%, and in some cases by as much as 10%.

**Increase operating model efficiency.** The following steps can give treasurers the authority and insights they need to improve productivity and cost performance significantly:

- Secure a comprehensive mandate to oversee the bank’s financial resources. That mandate should include oversight of liquidity and refinancing risks, structural market risk and capital position, and the liquidity buffer and the composition of the investment portfolio. To gain that authority, treasurers will need to build a strong business case, address political barriers, and ensure agreement among senior leaders. Treasurers that succeed in winning this mandate will reap the benefit of optimizing all key balance-sheet and regulatory ratios in an integrated way, and they will be better able to safeguard liquidity and contribute to the bank’s profitability goals.

- Invest in understanding the as-is state across the operating model. Benchmark key processes and analytics for their effectiveness against peer practices, and use the insights to prioritize improvements.

- Conduct a deep-dive analysis to determine what it will take to modernize the IT landscape within a two-to-three-year timeframe. Focus not only on the IT requirements, such as shifting to a cloud platform and microservices-based architecture, but also on the underlying data, skills, ways of working, and governance needs.

**Optimize financial resource management.** To improve the treasury’s P&L contribution and balance sheet health, treasurers should increase board engagement in risk appetite discussions. Treasurers should also systematically review each balance sheet component to identify untapped potential and optimize each layer. (See Exhibit 6.)
Review client portfolios through a risk-weighted-asset (RWA) efficiency lens. Doing so can help institutions establish or refine RWA limits, set cross-sell targets, eliminate unnecessary open lines of credit, and flag customer relationships that may be too costly to serve. Other potential capital-efficiency improvements include conducting a technical review of RWA measurement techniques, setting up an internal bad bank to separate troubled assets from healthy ones, and employing securitizations.

Take a fresh look at the liquidity buffer to see whether a different size, composition, funding horizon, or regulatory interpretation could shave costs and allow financial resources to be used more productively. Shifting to a centralized buffer model, as well as moving from static to dynamic buffer management, can enable this optimization on an ongoing basis.

Assess whether excess financial resources can be deployed in a new or extended investment book to stabilize and improve NII.
- Refine the funding mix to reduce average spreads, and build an ESG issuance program that can meet investors’ needs.

- Improve interest rate risk management by modeling longer deposit and equity horizons, deploying derivative strategies, and using hedge accounting in cases where the current or forecasted balance sheet capacity may limit the modeled duration.

- Examine asset tenor planning and funds transfer pricing to improve treasury steering and incorporate ESG.

**Accelerate digitization.** To pick up the pace of modernization, we suggest the following actions:

- Focus on a select number of opportunities, prioritizing those that address efficiency and performance bottlenecks. For example, develop interactive reporting dashboards to improve knowledge sharing and team productivity. More ambitious projects could involve investing in platforms to make the funding process more efficient or employing tokenization to make assets more liquid and easier to steer.

- Join other digital transformation efforts within the bank, or forge strategic partnerships with fintechs and knowledgeable third parties.

- Proactively monitor the impact of central banks’ digital currencies, and stay on top of distributed ledger technology developments that could potentially disrupt the treasury’s and capital markets’ value chains.

- Increase the adoption of agile practices for managing balance sheets by starting with pilots that address significant issues, such as forecasting, trading, or automation. Agile practices can deliver quick value, provide experiential training, and build buy-in for deeper changes.
Treasuries have an opportunity to enter the postpandemic period on a much stronger footing. Although the interest rate environment remains challenging, a combination of strong bank liquidity, low market volatility, and a willingness to expand traditional risk tolerances create ideal conditions for treasury leaders to press for change. These changes are hard, but persistence will pay off by allowing treasurers to contribute demonstrably higher NII.

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