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20 Essential Treasury KPIs for a Successful 2024

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Introduction

In today's dynamic economic landscape, characterized by unpredictable market shifts and volatility, CFOs must establish appropriate KPIs to effectively assess liquidity, funding, financial risk management, and corporate governance. The treasury KPIs are essential for optimizing decision-making and ensuring the organization's financial stability.

HighRadius named as a 'Major Player'

in IDC MarketScape: Worldwide SaaS and Cloud-Enabled Enterprise and Midmarket Treasury and Risk Management Applications 2023 Vendor Assessment.

READ THE REPORT

Choosing the right treasury KPIs can help CFOs:

1. Aid in monitoring daily tasks and measuring treasury department benchmarks
2. Help treasury managers manage critical tasks and drive process improvement
3. Provide CFOs, board of directors, and investors an accurate and reliable insight of treasury operations
4. Help identify and adopt best practices to achieve business objectives

Essential KPIs for Treasury Teams to Track Success

1. Cash Insights

Cash insight KPIs and metrics indicate the cash health of your organization.

1.1 Cash Visibility Percentage

Visibility through a portal into all company bank accounts and balances.

Why Measure it?

Clear cash visibility empowers treasurers to make effective decisions based on current and future liquidity:

- Invest cash strategically
- Support CFO in strategic initiatives with accurate knowledge of cash position.
- Use cash management structures effectively
- Reduce debt and interest expense

1.2 Automated Cash Visibility

A system automatically provides visibility through a bank portal into all company bank accounts, balances, and transactions.

Why Measure it?

Enhanced transparency enables the identification of funds that can be utilized for debt paydown, capital expenditure, and business reinvestment.

1.3 Average Monthly Collected Balance

The global average amount of collected balances.

Why Measure it?

It determines the amount of interest earned on a business account, as well as the fees that the bank charges every month. The higher the average collected balance every month, the more interest earned and the fewer fees charged each month.

1.4 The Global Average Monthly Collected Balance vs The Global Target Balance

The global average amount you intend to leave in accounts vs the amount that was left.

Why Measure it?

It helps you identify if you can hold an optimal balance (the sum of all the cash you have in all bank accounts) in reserve at any given point in time for your business to run smoothly.

1.5 Percent of Restricted Cash vs. Total Cash

The global average amount you intend to leave in accounts vs the amount that was left.

Why Measure it?

Understanding how much-restricted cash your company has is critical so your treasury can ensure you have enough liquidity to manage its operations. A high percentage of restricted cash could lead to needing more liquid money.

1.6 Cash or Revenue Ratio

Calculating this metric offers a conservative evaluation of a company's ability to fulfill its debts and obligations as it focuses solely on cash or cash-equivalent holdings. It excludes other assets, such as accounts receivable, from the calculation.

$$\frac{\text{Cash}}{\text{Revenue Ratio}} = \frac{\text{Total Cash}}{\text{Total Revenue}}$$

Why Measure it?

This metric shows the company's capacity to promptly pay off all current liabilities without the need to sell or liquidate additional assets.

1.7 Days Cash Available

$$\frac{\text{Total available cash}}{\text{Average value of disbursements per day}}$$

Why Measure it?

This metric refers to the duration, measured in days, during which your organization can sustainably cover its operating expenses.

1.8 Percentage of Daily Cash Balances vs. Forecast

$$\frac{\text{Sum of daily cash balances}}{\text{forecasted total cash balances}}$$

Why Measure it?

By calculating the percentage of daily cash balances vs your forecast, you can verify the accuracy of your projected period. Any discrepancies serve as a signal to investigate daily cash flows further and identify the source of the disparity.

1.9 Percentage of Non-Interest Bearing Cash vs. Total Cash

$$\frac{\text{Total balances in non-interest bearing accounts or instruments}}{\text{Total cash}}$$

Why Measure it?

This ratio considers the proportion of non-interest-bearing accounts with the total accounts. Non-interest-bearing cash refers to liabilities issued by a business in exchange for cash, representing amounts owed by the company to a third party.

1.10 Percentage of Non-Interest Bearing Cash vs. Total Cash

$$\frac{\text{Starting balance of 13 week period} - \text{Ending balance of 13 week period}}{3} \times 3.25$$

Why Measure it?

The 13-week forecast enables businesses to anticipate their cash flow for an entire fiscal quarter. By demonstrating a credible forecast showcasing incoming cash flows companies can secure financing.

2. Investment/ Debt Management Insights

These KPIs and metrics help to quantify the investment performance of your organization better.

2.1 Debt to Equity Ratio

It is calculated by dividing a company's total debt by total shareholder equity.

$$\text{Debt Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Net assets the company owns}}$$

Why Measure it?

The debt-to-equity ratio depicts how much debt a company has compared to its assets. A higher debt-to-equity ratio states the company may have a more difficult time covering its liabilities.

2.2 Cost of Debt

The cost of debt refers to the total interest amount that a company or individual owes on outstanding liabilities, including bonds and loans. This expense can be measured as either pre-tax or post-tax cost of debt. The level of the cost of debt is determined by the borrower's creditworthiness, with higher costs indicating a higher perceived risk associated with the borrower.

$$\text{Pre-tax cost of debt} = \frac{\text{Total Interest}}{\text{Total Debt}}$$

$$\text{Post-tax cost of debt} = \text{Effective Interest rate x (1 - effective tax rate)}$$

Why Measure it?

This metric measures the effective interest rate that a company incurs on its existing debt. A lower cost of debt signifies a more advantageous borrowing environment for the company.

2.3 Debt Service Coverage Ratio (DSCR)

It is calculated by dividing a company's total debt by total shareholder equity.

$$\text{DSCR} = \frac{\text{Revenue} - \text{Certain operating expense}}{\text{Total Debt}}$$

Why Measure it?

The debt-service coverage ratio (DSCR) assesses a company's available cash flow for meeting its current debt obligations. It provides investors and lenders with insights into whether the company generates sufficient income to repay its debts.

2.4 Current Ratio

The current ratio evaluates a company's capacity to fulfill its immediate obligations (debts and payables) by utilizing its present assets (cash, inventory, and receivables) that are readily converted into cash.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilitites}}$$

Why Measure it?

The metric assesses a company's capacity to meet its immediate financial obligations or those that are due within a year. It provides insights to investors and analysts regarding how effectively a company can utilize its current assets listed in the balance sheet to settle its current debts and other payable liabilities.

2.5 Weighted Average of Cost of Capital (WACC)

A company's weighted average cost of capital (WACC) is the amount of money it must pay to finance its operations.

$$\text{WACC} = \frac{\text{Market value of the firm's equity}}{\text{Total value of capital}} \times \text{Cost of equity} + \frac{\text{Market value of the firm's debt}}{\text{Total value of capital}} \times \text{Cost of debt} \times (1 - \text{tax rate})$$

Why Measure it?

A company's capital structure refers to the combination of debt and equity it utilizes to finance its operations. As debt and equity possess varying rates of return or costs of capital, it is crucial to consider these factors in determining the weighted average cost of capital (WACC).

3. Risk Management Insights

These KPIs and metrics help to mitigate the risks and manage them effectively.

3.1 Interest rate risk

Fixed-income assets, such as bonds, are primarily subject to interest rate risk rather than equity investments. This is because changes in interest rates have a significant impact on the price of a bond.

Why Measure it?

Interest rate risk refers to the possibility of a decrease in the worth of an investment due to unforeseen changes in interest rates.

3.2 Currency Risk

Having assets or business operations spread across different countries exposes your company to currency risk, which can lead to unpredictable gains or losses.

Why Measure it?

Fluctuations in exchange rates are a common occurrence over time, and holding a weakening currency can result in businesses losing value. However, implementing specific hedging strategies can assist in mitigating this risk.

3.3 Liquidity Risk

Liquidity risk entails the possibility of a business encountering challenges in fulfilling its immediate financial responsibilities because it is unable to convert its assets into cash without incurring significant losses.

Why Measure it?

Liquidity issues can have several negative consequences, such as financial losses from selling assets at reduced prices, operational disruptions caused by insufficient cash flow, and reputation damage that further worsens the liquidity situation.

3.4 Operational Risk

Operational risk refers to the potential dangers and uncertainties a company encounters while carrying out its daily business operations and managing its treasury functions.

Why Measure it?

One of the most significant operational risks that companies face is the potential failure of their information technology (IT) infrastructure, which can be caused by software bugs or viruses. Such an outage has the potential to disrupt payment systems, making it impossible to process transactions. In addition to external threats like computer hackers, there is also a risk of internal dangers from employee theft or fraudulent activities.

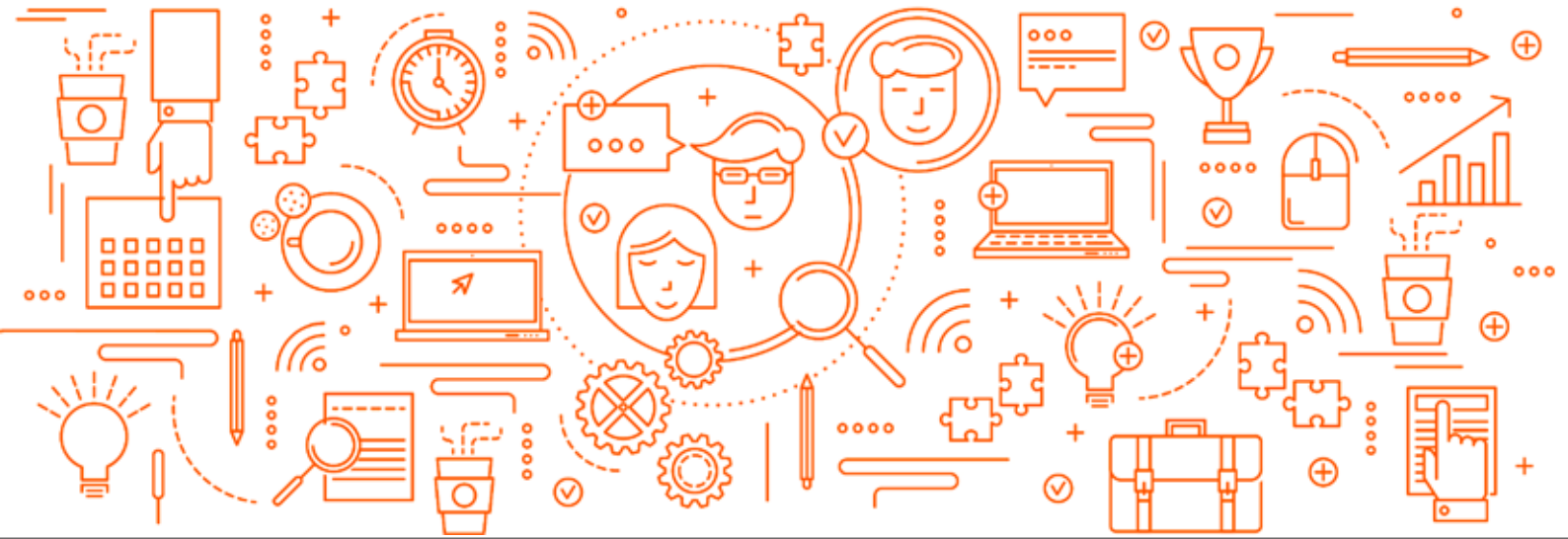
3.5 Cash Flow Forecast Accuracy

Cash flow forecasting assists businesses in organizing their cash inflows and outflows. By estimating future cash flows using historical data and business trends, companies can make more informed choices regarding the allocation of their resources.

$$\text{Cash Flow Forecast Accuracy \%} = 1 - \frac{\text{Actual closing} - \text{Forecasted closing}}{\text{Actual closing}} \times 100$$

Why Measure it?

This metric evaluates the accuracy of predicted versus actual cash flow, providing teams with insights into their ability to forecast inflows and outflows. Its significance lies in aiding teams in identifying opportunities to enhance their forecasting methodologies.



Benefits of Using HighRadius Treasury Software

HighRadius Treasury and Risk Software provides the following value to treasury managers that helps them get a centralized view of cash position across all banks, geographies, businesses, and currencies and get accurate cash forecasting.

Improve Operational KPIs

- **100%** Automated Bank Integration
- **100%** Automated Cash Visibility
- **98%** Automated Cash Transaction Tagging
- **95%** Global Inflows Forecast Accuracy
- **95%** Global Outflows Forecast Accuracy
- **100%** Automated Bank Integration
- **98%** Automated Cash Flow Category Tagging

Deliver Business Outcomes

- Increase Cash Management Productivity by **70%**
- Make Quicker Short Term Liquidity Decisions
- Reduce Idle Cash by **50%**
- Increase Forecasting Productivity by **70%**

Take control of Your Cash Flow and Make Accurate Financial Decisions with Treasury and Risk

LEARN MORE

About HighRadius

The HighRadiusTM **Treasury & Risk Management Applications** consist of **Cash Forecasting** and **Cash Management** designed to support treasury teams from companies of all sizes and industries. Delivered as SaaS, our solutions seamlessly integrate with multiple systems including ERPs, TMS, accounting systems, and banks using sFTP or API. They help treasuries around the world achieve end-to-end automation in their forecasting and cash management processes to deliver accurate and insightful results with lesser manual effort.

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