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Health Care Service Corporation

Does your treasury require major surgery?

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Treasury Transformation:

Vision – Plan – Execution

Our transformation can be summarized across the following initiatives:

1. Fully automate, customize and leverage a Treasury Work Station (“TWS”)
2. Designing TWS To Drive The Cash Forecast Process
3. Designing TWS To Improve Investment Performance
4. Automating EFTs Initiated and Approved Outside of Treasury
5. Reengineered Cash Receipts Function
6. Leveraging TWS for BCP Readiness
7. HCSC Treasury Bank Scorecard Methodology

Treasury Transformation: Fully Leveraged & Customized TWS

Problems / Solutions / Best Practices

- **Problems:**

- Disjointed technology infrastructure.
- Manual re-keying of data, created data integrity concerns/additional resources.
- Need to do more with less.

- **Solutions:**

- TWS enabled all activity to be controlled through one system.
- Customized reporting enabled cash positioning by 9:00AM.
- Optimize market decisions on a \$10B investment portfolio by 9:30AM.
- Daily cash activity updates uploaded into cash forecast regression model.
- 86% productivity savings.

- **Best Practices:**

- 100% cash visibility.
- Customized dashboards.
- Investment returns increased by \$140M or 5% annually.
- FTE savings.
- Enhanced controls and processes.

Treasury Transformation: Designing TWS To Drive The Cash Forecast Process

Problems / Solutions / Best Practices

- **Problems:**

- One methodology.
- Multiple long-standing, highly manual processes associated with daily cash movements.

- **Solutions:**

- Take the “black-box” out of the cash forecast.
- Proactively manage working capital needs and cash flows.
- Ability to analyze actual vs. expected cash flows.
- Increase insight into cash drivers and profitability.
- Increase confidence in external reporting.
- Support a cash culture with accountability for results.

- **Best Practices:**

- Better understand the company’s cash flows and investigate what drives them.
- 3 years of history categorized into the TMS - foundation of regression-based cash forecast.
- TWS customized to create mapping rules and worksheet categories.
- Information throughout the company about cash flows occurring over the next 30-90 days - developed a “cash focused culture” to the larger business enterprise.
- Departments feeding Treasury more frequent and real-time updates.

Treasury Transformation: Designing TWS To Improve Investment Performance

Problems / Solutions / Best Practices

- **Problems:**

- Limited working capital and cash flow information to maximize investment income.

- **Solutions:**

- 100% cash visibility.
- The TWS assisted in developing a cash forecasting model to manage working capital and increase investment returns by \$140M or 5% annually.

- **Best Practices:**

- Materially increase investment performance with marginal risk exposure, including liquidity and interest rate risk.
- Reporting and daily dashboards are customized to business needs via automation.
- Enhanced ability to meet financial obligations.
- Early warning for liquidity problems/opportunities.
- Optimize short-term investing or borrowing decisions.

Treasury Transformation: Automating EFT Initiated/Approved Outside of Treasury

Problems / Solutions / Best Practices

- **Problems:**

- Treasury processed a significant number of EFT payments each day.
- Treasury organization faced a crossroads to do more without adding additional FTEs.

- **Solutions:**

- The customized TWS architecture and EFT workflow process that enforces the Financial Authorization Policy (FAP).
- By automating treasury payment workflow of EFTs, 86% of treasury cash management analyst productivity was freed up to assist in project and consulting oriented work.

- **Best Practices:**

- TMS delegated workflow does not sacrifice any financial controls.
- Among first known treasury organizations to have successfully pushed and delegated TMS EFT initiation and approval process to business functions outside of the Treasury Organization.
- Business unit EFT authorizers notified electronically of transactions pending approval. No need for paper.
- Increased mobility for department directors/managers to approve transactions in meetings, traveling, home, etc.
- Automated Fed Reference Number reporting confirms the finality of the transaction directly to the business unit.
- Treasury secures final control for release and timing of payments.
- Payment templates managed and accessed only by treasury.
- Treasury's role is trouble shooting, and ensuring the payment system technology runs smoothly and securely.

Treasury Transformation: Reengineered Cash Receipts Function

Problems / Solutions / Best Practices

- **Problems:**
 - Increased volumes due to Affordable Care Act to accept electronic payments from government Health Insurance Exchanges.
 - Service and Quality, Payment Trends, On-Going Labor and Equipment Demands
- **Solutions:**
 - Outsource the in-house cash processing, and expand collection capabilities and flexibility. The new model provided strategic and operational benefits such as:
 - Faster application of cash.
 - Centralized hub for increased accuracy and reduction of exception handling.
 - Automated receipt of electronic payments.
 - Improved ability to provide research and service to internal AND external customers.
 - Disaster recovery improvements.
- **Best Practices:**
 - Significant benefits of re-engineering - outsourcing of payments and the development of the Cash Application Hub (CAH).
 - Approximately 700,000 payments per month for \$4bn dollars are processed through the CAH.
 - Cycle time of paper check processing reduced from 7 days to same-day for cross referenced items and manually dispositioned items are now processed next day.
 - Virtually all (97%) paper checks/electronic payments are cross referenced and go through the dispositioning process.
 - 45% of electronic payments posted automatically with no manual intervention
 - Using the Cash Application HUB has allowed for centralized financial reporting and balancing of all A/R systems improving audit controls.

Treasury Transformation: Leveraging TWS for BCP Readiness

Problems / Solutions / Best Practices

- **Problems:**

- Potential catastrophes that can threaten the enterprise viability, HCSC Treasury organization and systems must be “first up” and have a best in class Business Continuity Plan/Disaster Recovery Plan.

- **Solutions:**

- BCP solution uses the best available technology and is seamless and transparent to our members, stakeholders, and business enterprise.
- Process contingency tested and confirmed reliable.
- BCP has been tested robustly with full success when Chicago hosted the NATO and G-8 Summit in 2012, during snowstorms, subway flooding, system failure at company headquarters, etc.
- All systems are run on company secure devices. At home laptops, cell phones, iPad tablets, and office phones are synchronized together in one seamless chain.

- **Best Practices:**

- Our customer members, banks, vendors, and business enterprise have never noticed business interruption of Treasury services.
- All staff cross-trained 3-4 people deep in all treasury processes. Treasury also employs three systems professionals dedicated to technology, in-house systems, and banking systems. Every presentable issue has a triage work-around.
- Continuous improvement: HCSC Treasury will document and debrief the event to monitor what works, what doesn't work, and what should we do differently the next time. We strive to constantly anticipate any type of system glitch or failure that would keep the team from succeeding.

Treasury Transformation: Bank Scorecard Methodology

Problems / Solutions / Best Practices

- **Problems**

- The need to balance HCSC's credit needs with the relationship profitability needs of its vendors.

- **Solutions:**

- Transparent sharing of information and open conversation on the mutual benefits of its many financial services relationships.
- Several metrics that we believe are key to the discussion.
- Measuring the direct and indirect expenses paid to the vendor (i.e. direct revenue to the vendor).
- Determine total profitability from the direct and indirect expenses paid to each vendor.
- Determine the each vendor's risk-adjusted return on capital (RAROC).

- **Best Practices:**

- Vendors require profitable relationships to support credit commitments.
- Strategically manage its share of wallet to maximize credit availability while providing relationship returns our vendors require.
- Allows us to maintain an appropriate number of bank/vendor relationships given our annual spend, credit needs, resources, and time.
- Innovative as it captures the overall relationship profitability.
- Other companies track share of wallet. However, the feedback we have received is that our scorecard, which is all encompassing including profitability, is the closest and most accurate measurement to that which vendor banks use internally.

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Question time

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Thursday 24th March with Bharti Airtel
Building the network – seven key pillars