



Building a Strategic Treasury at HCSC

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HCSC
Health Care Service Corporation



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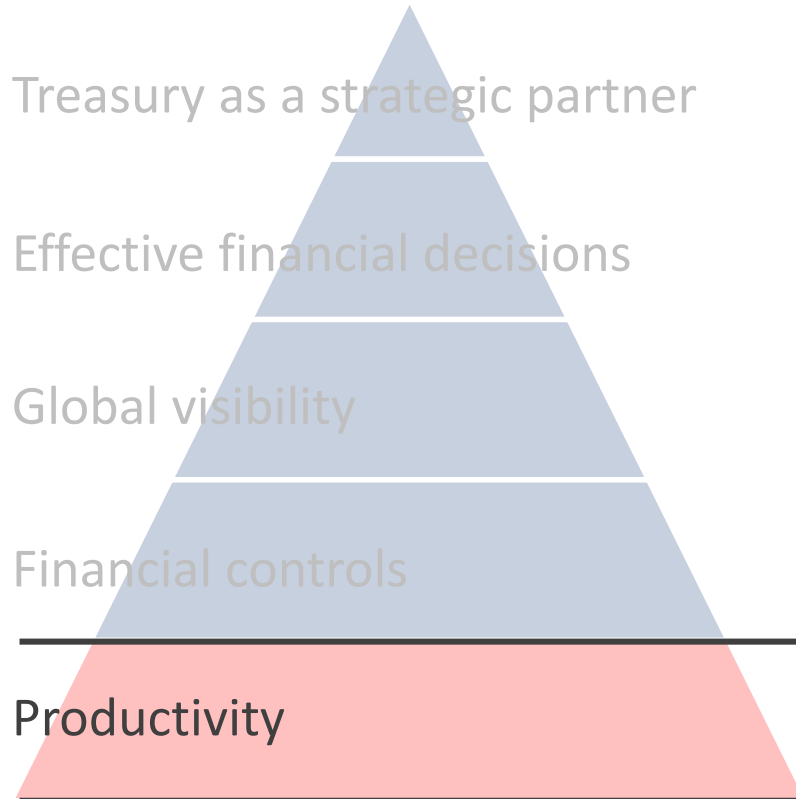
Agenda



Today's Discussion

- Hierarchy to become a strategic partner
- HCSC's Strategic Mandate
- Key Successes
- Takeaways

Value Creation Hierarchy



Single point of data entry

- Eliminate re-keying errors
- Improve accuracy and confidence in analysis

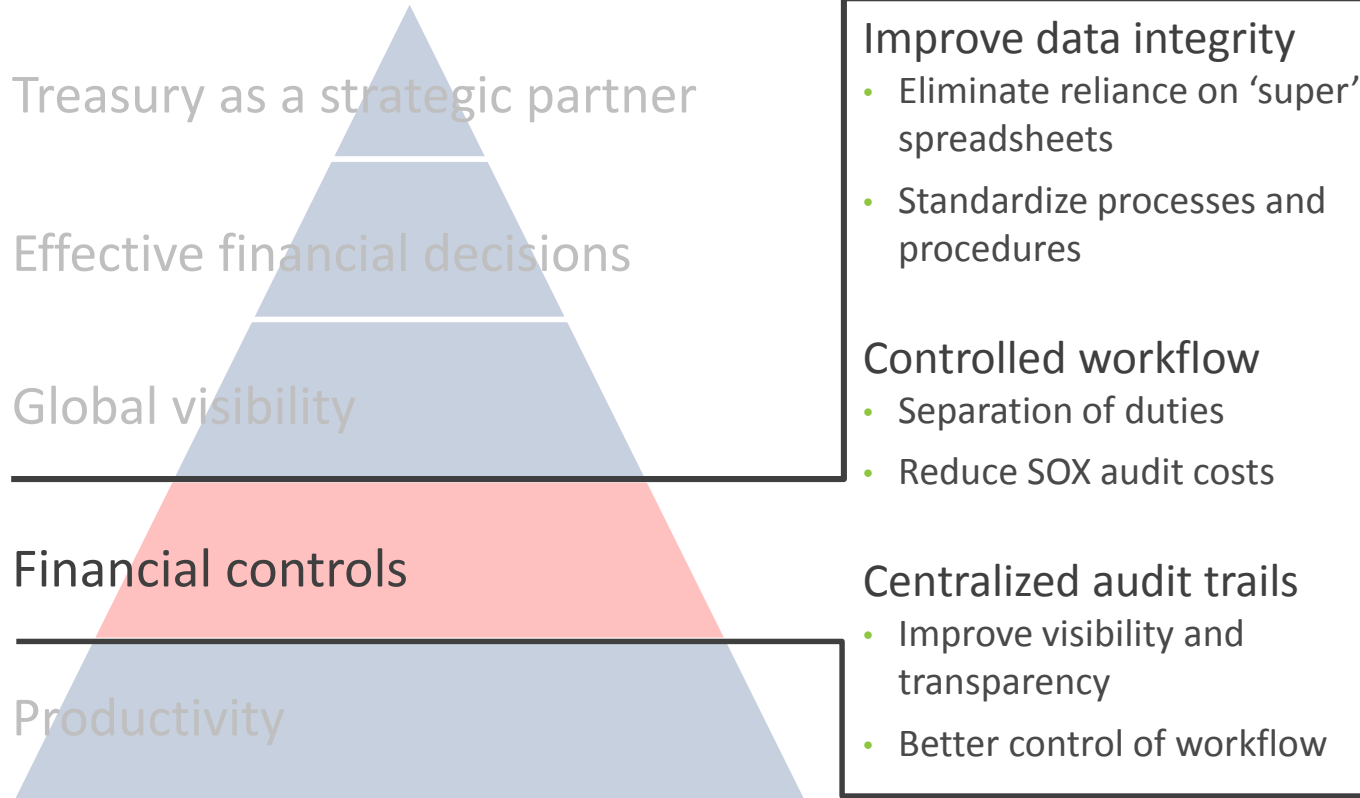
Automate repetitive tasks

- Shift time from processing to analyzing
- Achieve results more quickly

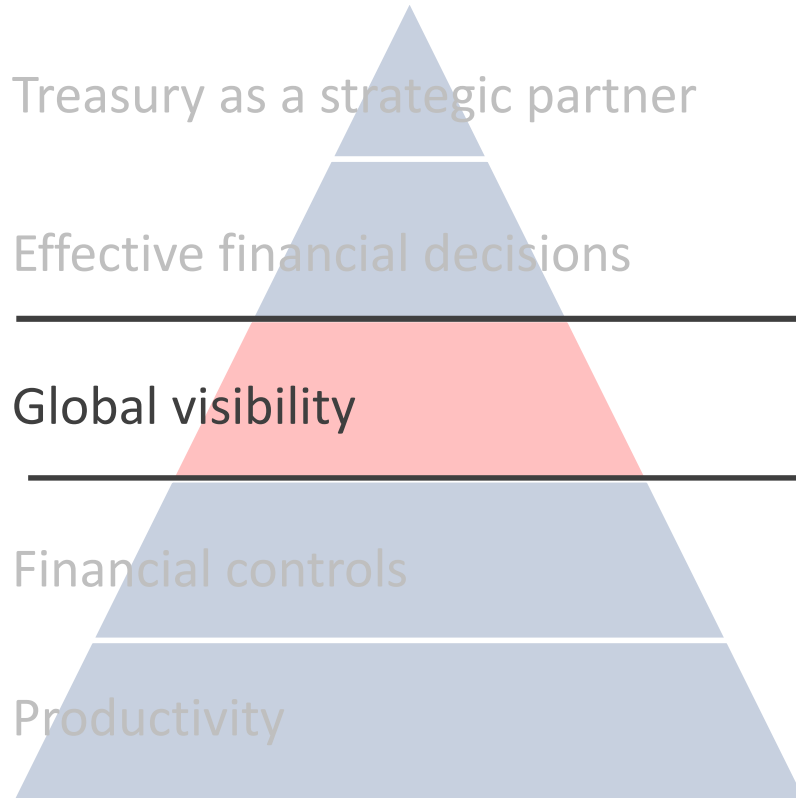
Streamline reporting

- Automate and schedule preparation and distribution

Value Creation Hierarchy



Value Creation Hierarchy



Cash

- Bank reporting
- Cash positioning
- Forecasting
- Liquidity

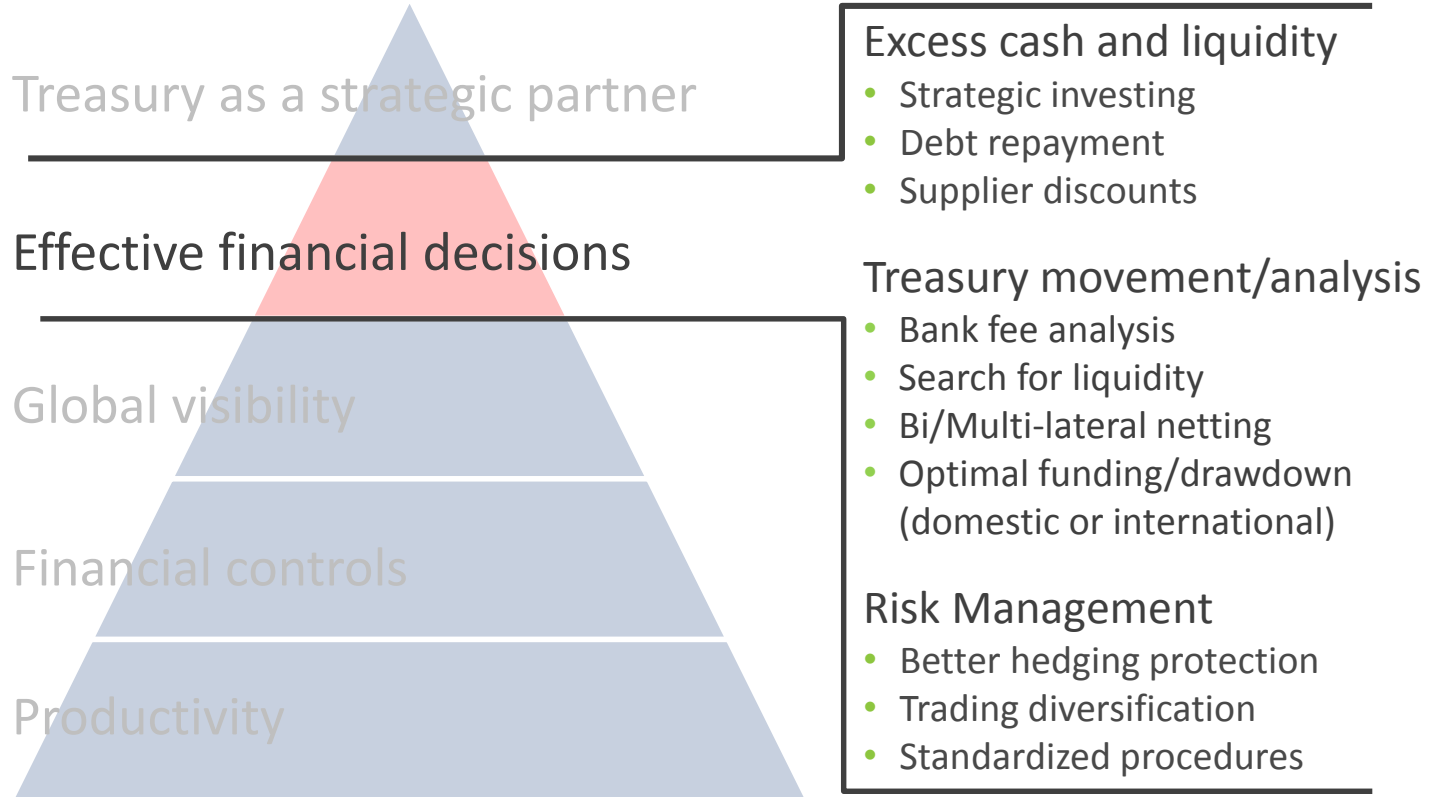
Financial positions

- Investment
- Debt
- Intercompany
- Foreign exchange

Exposures

- Foreign exchange
- Interest rate
- Counterparty
- Supply chain

Value Creation Hierarchy



Value Creation Hierarchy

Treasury as a strategic partner

Effective financial decisions

Global visibility

Financial controls

Productivity

Build value through collaborative business partnerships

- Intelligence
- Insight
- Analysis

Benefit to the organization



Becoming Strategic at HCSC

HCSC Overview



HCSC
Health Care Service Corporation



BlueCross. BlueShield.
Illinois · Montana · New Mexico
Oklahoma · Texas

- HCSC is the 4th largest healthcare insurer in the U.S. operates Blue Cross Blue Shield in Illinois, Texas, Montana, Oklahoma, and New Mexico in addition to 30+ operating subsidiaries.
- With 16 million health plan members and 20,000 employees, Health Care Service often flies below the radar as a mutually-owned company because it's not publicly traded and included in the so-called "Big 5" public firms that trade on the New York Stock Exchange.

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HCSC Treasury

HCSC Treasury	Metric
Company Revenue	\$61 Billion
Scope of Operations	Number of Bank Relationships 14 Number of Bank Accounts 150+ Number of Investment Accounts 85+
Size of HCSC Treasury Team	Treasury Operations: 19 Treasury Investments, Acct & Fin Rpt: 20 Treasury Systems: 2 Insurance & Risk: 3 HCSC/Planites Credit Union: 19
Cash Management & Investment Assets	\$10 Billion
Cash Transaction Throughput	\$100 Billion Annually

Treasury's Opportunity

Two drivers for change

1) Affordable Care Act

- Passed in 2010
- Significant effects on liquidity and cash planning
- Drove need to re-engineer treasury operations

2) Centralization of HCSC treasury function

- Brought together treasury functions across 30+ member organizations



HCSC Treasury Assessment

Conclusions (in 2010)

Scope of the review	Observations
<ul style="list-style-type: none">• Environmental observation of culture and behavior• Work loads and work load spread• Basic Processes and seams where processes are not automated• Basic operations and systems understanding	<ul style="list-style-type: none">• Heads down, hard working department• Not Strategic – Very operationally and process oriented “wire shop”• Understaffed – The enterprise needs outpaced capacity of staff• Other departments were filling Treasury’s “gaps”• Primary attention was on investment reporting to the board

HCSC Treasury's Mandate: Become Strategic

Initial Objectives

- Increase visibility of enterprise cash and liquidity to 100%
- Enable proactive monitoring and improved controls of all \$100B in annual cash throughput
 - 150+ bank accounts
 - 20 investment managers
 - 72 investment accounts
- Re-engineer cash receipts function
- Improve controls protecting investments and payments
- Increase productivity of treasury operations



HCSC Treasury's Mandate: Become Strategic

Strategic Objectives

- Implement new strategic investment allocation strategy
- Develop comprehensive business continuity plan (BCP)
- Introduce HCSC Treasury Bank Scorecard Methodology
- Build Treasury Strategic Integration Plan
 - For mergers, subsidiary integration, and market expansion
- Increase mandate of Treasury Operations

Cash Management

Investment Management

Treasury Systems Architecture

Business Continuity Practices

Cash Forecasting

Balance Sheet Management

Corporate Governance – Audit

Staff Development - Enrichment



HCSC Treasury's Mandate: Become Strategic

Solutions

- Selected and implemented a Treasury Management System (TMS)
- Enabled achievement of strategic objectives, including
 - Increased cash visibility
 - Improved accuracy of forecasting
 - Standardized payment workflows – including wires initiated and approved outside of treasury
 - Core component of business continuity planning
 - Delivered automation of treasury activities – freed up time!
 - Proactive cash and liquidity monitoring



Health Care Service Corporation - Treasury Strategic Objectives

HCSC Objective	Achieved	How
Visibility of Enterprise Wide Cash	100% Visibility into HCSC Cash	<ul style="list-style-type: none">• Automated connectivity to all HCSC banks and accounts (via TMS)• Allowed automation of cash positioning, reconciliation, accounting, and reporting• Set cash positions earlier in the day (by 9am)• Enabled single system to monitor, control, and report \$100B in annual cash throughput
Improve Forecasting to Optimize Liquidity and Working Capital	Reduced Tier I working capital balances from \$500M to currently \$50M bands	<ul style="list-style-type: none">• Automated reporting and daily forecast dashboards• Improved forecast accuracy to reduce variances• Increased confidence in working capital projections to reduce idle cash and maximize investment

Health Care Service Corporation - Treasury Strategic Objectives

HCSC Objective	Achieved	How
Increase Investment returns by 2%	Investment Returns Increased 5% Short Term \$40M Long Term \$140M	<ul style="list-style-type: none">• Automated cash positioning = daily investment positions made earlier (by 9:30am)• More tactical and strategic investments<ul style="list-style-type: none">✓ Increases returns on short term decisions✓ Expanded Tier II investments
Decreased Fees and Expenses	\$2.4M Annually	<ul style="list-style-type: none">• Outsourced cash receipts lockbox• Bank scorecard methodology<ul style="list-style-type: none">✓ Optimized bank fees and services

Health Care Service Corporation - Treasury Strategic Objectives

HCSC Objective	Achieved	How
<p>Automate Key Treasury Operations (to free time for strategic initiatives)</p>	<p>Automated</p> <ul style="list-style-type: none"> ✓ Cash Mgmt ✓ Payments ✓ BRM ✓ Cash and B/S Forecasting ✓ Corp. Govern. & Audit Controls ✓ Business Continuity ✓ FSD 2020 Ready 	<ul style="list-style-type: none"> • Implemented TMS <ul style="list-style-type: none"> ✓ Aligned requirements between Treasury, IT, Accounting, Audit, Kyriba, banking partners ✓ Seamless integration – transparent transaction flow • Identified best practices to streamline processes • Created opportunities to leverage best practices; environment of continuous improvement
<p>The HCSC Treasury Brand: Strategic Business Enterprise Partners and Consultants</p>	<p>Proved Subject Matter Expertise Consulted 150+ Projects in 2015</p>	<p><u>“Treasury as Strategic Consultants”</u></p> <ul style="list-style-type: none"> • Built out team of diverse professionals: CTP’s, CFAs, CPAs, FPAs • Developed strategic capabilities within team • Demonstrated best-in-class in treasury functions • Freed time for development projects



Added Objective: Industry Recognition

For personal and professional enrichment, HCSC Treasury added new objective: peer and treasury industry recognition



Won Judge's Choice Award



Winner in 4 of 7 categories including:
Treasury Transformation, Technology Excellence, Operational Risk Management, Financial Risk Management



Won Proactive Treasury Management Award

Summary: The Path To Becoming A More Strategic Treasury

Get Involved

Build cross functional relationships in your organization that get you “in the room” with CFO’s, Treasurers, Directors, Stakeholders, etc.
Know their strategic objectives

Ideate and Lead

Create vision of how treasury should work at your organization
Find the right technology and banking partners to deliver best practice

Process Improve and Automate

Make automation and continual process improvement your “Treasury Culture”

Understand value of technology

Develop functional expertise to determine what is/isn’t valuable
Learn enough about technology and interconnectedness to know how everything fits together



Questions?

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