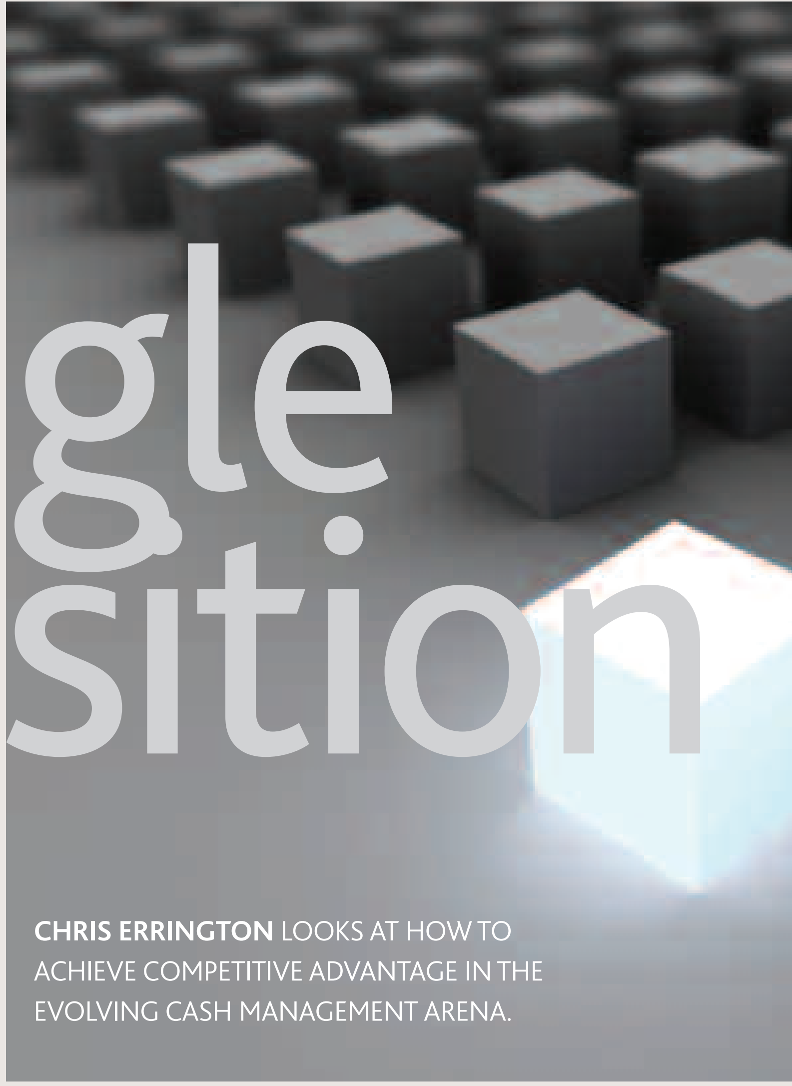
A single position



CHRIS ERRINGTON LOOKS AT HOW TO ACHIEVE COMPETITIVE ADVANTAGE IN THE EVOLVING CASH MANAGEMENT ARENA.

The global cash management industry is challenged by consolidation, intense competition and business customers who are not only more demanding, but increasingly global. Consequently, corporate customers need greater standardisation and transparency of bank products, pricing and payment systems.

Corporates are facing new infrastructures that link subsidiaries across the world. These central cash pools need to generate optimal investment and returns. New technology makes intra-day liquidity management possible and therefore global liquidity management is achieving an unprecedented level of interest.

THE EVOLUTION OF CORPORATE CASH MANAGEMENT Cash management is no longer restricted to the simple management of payment flows and account balances; working capital needs to be manipulated to achieve greater business efficiencies and increase revenues.

Today's competitive marketplace has spawned a raft of largely heterogeneous bank offerings. With products and prices fairly generic, corporates are assessing the intangibles such as the quality of service and relationship management skills.

Mid-market banks bring unique pressures. "Their more nimble structures enable them to move more quickly with new initiatives and provide superior customer service. As a result, mid-size banks with between $9bn and $30bn in assets are likely to see the greatest growth in cash management revenues over the next few years as they slowly chip away at the market shares of the current leaders," says Christine Barry, Research Director at Aite Group[1].

FROM PAYMENTS PROVIDER TO STRATEGIC BUSINESS PARTNER The relationship between bank and client is more akin to that of a partnership. That partnership needs to be sustainable in the longer term because a significant investment is made in selecting the primary bank.

However, this shouldn't suggest that a closer relationship between corporate and banking entity means higher retention rates. In many cases the opposite is true. Sophisticated multinationals are fickle and constantly on the look out for the next best deal.

To keep on top, the bank must understand the whole picture of the corporate: its industry, future challenges and needs. That requires commitment. It must examine how to work together now and in the future to meet new cash management and treasury trends – no matter the market, time zone or currency.

DELIVERING A SINGLE CASH POSITION TO CORPORATES Cash management and liquidity management strategies are inextricably linked. In order to achieve the two key objectives of a corporate treasurer – maximise the returns on investments and minimise risk – treasury must have a solid core account structure and a liquidity management strategy that complements its overriding cash management strategy.

Mobilising cash into a single position is essential in today's corporate landscape. Banks are now viewing liquidity management as an integral part of the financial value chain management.

While all banks are striving for this cash management nirvana of a single, integrated global solution, only a handful have the systems and processes to make this a reality.

THE NEED FOR GREATER AUTOMATION Banks are also vying to retain their successful payments businesses. Corporates are demanding higher levels of automation, differentiated services with minimal complexity and limited rigidity internally.

After years of investment in multiple payments, reporting and reconciliations systems, banks aren't willing – or indeed able – to rip out and replace legacy systems.

Corporates, meanwhile, are looking to consolidate systems and information sources to gain a birds-eye view to enable them to manage cash positions, track and reconcile transactions, report and analyse information and perform other key treasury management functions.

The treasurer's core task has always been to guarantee the provision of sufficient liquidity to support the company's business aims. This means getting as clear a picture as possible of cashflows.

Executive summary

- Globalisation is evolving both the culture of banking relationships and the needs and expectations of corporates. Successful retention and maintenance of corporate clients for banks is imperative against a backdrop of tight cost bases and consolidation in the sector.

- Technology is key to these changes, however corporate treasuries are yet to fully exploit it – especially web-based technology – to its maximum business advantage. Solid business decisions need accurate and timely financial information. Treasury's influence is extending across the organisation and is becoming more strategic and relevant to board level decisions.

- This article examines the drivers in the corporate and bank relationship and assesses the trends that are driving changes. It also outlines what banks can do to meet corporate banking needs and deliver new levels of service.

THE NEED FOR REAL-TIME PAYMENTS DATA One of the biggest stumbling blocks is the lack of real-time payment information. Internal systems can only ever be as good as the external information they receive.

The quality of data also makes it difficult to facilitate real-time reconciliation of accounts.

For example, a corporate could have multiple payments of the same amount entering and leaving its accounts on a daily basis. But without the ability to drill down into the detail of each payment, how can the treasury department match a payment with a receipt, purchase order or inventory?

With immediate access to transaction and balance information, corporates can work on actual positions rather than best assumptions or predictions. They can identify gaps in funding positions and measure potential savings from known cash positions derived on a real-time basis.

Nancy Atkinson, Senior Analyst at Aite Group, says: "Over the next five years, smart banks will create the necessary linkages to make convergence a reality. By creating these links, banks will experience greater customer retention and more up-sells and cross-sells leading to increased revenues and profit margins."

DELIVERING INNOVATIVE CASH MANAGEMENT SERVICES Banks are now playing a more proactive rather than reactive role in the relationship with their clients. They are providing experienced relationship managers who specialise in international cash management and banking requirements and who have a very good understanding of their corporate businesses by sector.

Today, the banks that are successfully benefiting from real-time cash information realise an incremental approach, rather than wholesale re-engineering, can make much more sense – allowing organisations to decide how far they go in incorporating real-time information into their processes.

Developing a business case for undertaking and a real-time cash reporting initiative and implementing a solution doesn't require a lot of time or investment but it does demand careful planning and clear, phased objectives.

SINGLE, BROWSER-BASED PAYMENTS PORTAL Corporates want their lives to be as easy as possible and that means access to all of their services through a single view. What they don't want is to get involved in a big implementation project with their IT department.

The obvious solution is a single, integrated portal to meet corporate transaction needs, regardless of which banks, suppliers or enterprise resource planning (ERP) systems they use. Banks have to start thinking like their customers and provide secure, multi-bank, open architecture solutions.

Banks need to provide many of the following in order to capture new clients and maintain existing relationships:

- Single window access to all possible payment types;
- Openness to provide a seamless integration with company's cash management systems;
- Uniform and easily reconcilable reporting and acknowledgments;
- Event-driven real-time, high-speed processing with late cut-off times;
- High stability and flexibility for volume processing; and
- Quick, inexpensive and simple implementation processes.

A web-based solution provides a combination of intelligence and control with end-to-end workflow support for front, back and middle office applications and is accessed through the most convenient device.

These solutions are more than a single window into transactions. They also offer a process-oriented approach that enables corporates to proactively manage regulatory and business changes.

A completely web-based solution makes any decision about whether the treasury function should operate in a centralised or decentralised model obsolete and different locations can have different functions.

THE ENTIRE VALUE CHAIN Treasurers are under increasing pressure to manage the entire financial value chain, while safeguarding the financial health of the organisation. To do this, they need a holistic view that considers all aspects of financial activity.

Such a system will enable more efficient cash and liquidity management through an accurate view of cash positions that help to optimise funding decisions. It also helps to improve financial controls and enhance limit utilisation by acting on precise rather than forecast positions.

By providing consolidated, real-time information through an intuitive interface, banks can provide true value-added services. These are also services that corporates are willing to pay for, opening up new revenue streams while at the same time strengthening the bank/customer relationship.

1. *Top 10 Trends in Cash Management: Moving Beyond the Status Quo*, Aite Group 2006

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