Trends in UK cash management

Peter Knight of J.P. Morgan analyses the key aspects of this Summer's joint ACT/J.P. Morgan online cash management survey.

The internet is changing the way we do business. Our ability to communicate with our customers and suppliers is being transformed. Businesses are discovering that the way they use this communication medium can give them an important edge over their competition. Whether it is to advertise products, buy services or obtain information, the internet has become the new frontier for businesses to interface with the outside world. To benefit from this technological advantage, the Association and J.P. Morgan launched their internet-based UK Cash Management Survey 2000.

Aims of the survey

There were two key reasons for conducting this survey. Firstly, the Association was keen to understand how its members managed cash and to understand how textbook theory was being practically implemented. It also wanted to see how widely recent developments in cash management services and technologies were being used. Secondly, J.P. Morgan was keen to view trends in the corporate cash market to assist them in the design of new products and the positioning of existing ones.

One of the challenges in designing a survey intended for the internet is prompting people to complete it. Prior to launching the survey, J.P. Morgan asked a number of corporate treasurers what would encourage them to fill out a survey online. The key motivating factor to encourage them to complete the survey was education – in terms of what they would learn from the survey and be able to apply to their business to add value. A variety of other factors were also mentioned, including the time required to complete the survey (it took no more than 10 minutes) and how easy the survey was to use. Corporate treasurers had some unique criteria as well, which centred on data security and anonymity of respondents.

To satisfy the security and anonymity requirements, the Association insisted that J.P. Morgan run the survey on an independent secure server and individual responses would not be revealed. J.P. Morgan gave assurances that the information would be kept proprietary to the Association and J.P. Morgan. As a further guarantee, J.P. Morgan entered into a confidentiality agreement with the Association to ensure that treasurers would not receive a sales call if they filled out the survey.

Instant feedback

To give value back to treasurers, the survey leveraged the benefits of internet technology by providing instant feedback. While completing the survey, treasurers could view graphs that illustrated how their answers to selected questions compared to those of previous respondents. Post completion, treasurers who supplied their e-mail address were offered the opportunity to receive a full report showing how their individual responses compared with the average of their peers. In addition to receiving detailed feedback, entry into a prize draw for a holiday in Hong Kong was offered as an extra incentive.


Peter Knight

Did it work? Yes, one hundred and twenty organisations answered the internet-based survey and this compares favourably with previous paper-based Association surveys.

The results

The survey covered a number of different sectors within cash management, namely: bank relationships; profit versus cost centres; outsourcing; debt management; cash positions; credit; investment instruments; diversification limits; currency and timing of investments; yield; foreign exchange; impact of the euro and the internet. Valid trends in each of these areas can be observed from the data based on the number and quality of responses to the survey.

Highlights of the survey were published in a special insert in the October issue of *The Treasurer*. Included below are further highlights of the results. A complete analysis can be found on the Association website www.treasurers.org and the J.P. Morgan website www.instliq.jpmorgan.com. A hard copy can also be obtained from J.P. Morgan by contacting Peter Knight at 020 7451 8804.

In summary, the results produce some interesting themes.

Nearly three-quarters of companies regard the treasury function to be a cost rather than a profit centre (*see Figure 1*), which is in line with other surveys conducted by J.P. Morgan. Given that the role of a treasurer is to control balance sheet risk, the result seems to imply that companies view balance sheet management as a cost.

Three-fifths of companies are in a net debt position. This may appear unusual given the buoyant UK economy. However, debt issuance has been widely used to finance acquisitions and capital projects in recent years and could account for the result. Bank overdrafts

FIGURE 1

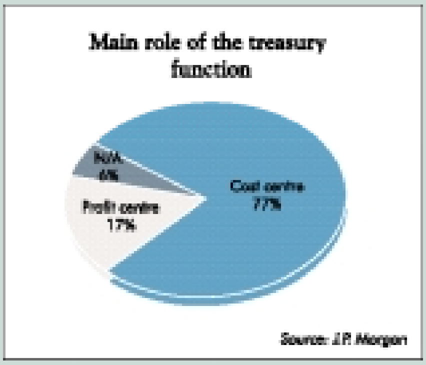
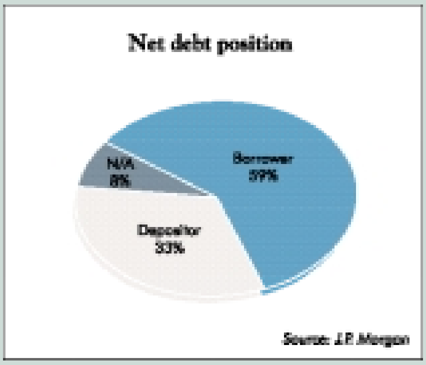


FIGURE 2



remain the most popular means of short-dated financing with commercial paper, bond issuances and MTN programmes being the most popular for longer-term funding. Despite having a net debt position companies have a lot of short-dated surplus funds available. Not surprisingly, sterling was the most popular currency followed by US dollars and the euro. Average surplus balances were high, coming in at over $100m (*see Figure 2*).

The importance of credit quality when investing surplus funds is widely understood. Relatively high credit thresholds are applied across the board. The majority of treasurers use diversification in risk control, which is the other key factor. There is a significant minority (33%) who still do not diversify their cash investments and further analysis needs to be done to understand why credit quality as a risk control is not being used by them.

When investing surplus cash deposits, bank deposits remain the most popular option among 83% of corporate treasurers. There has been a dramatic increase in the use of money market funds up from zero five years ago to 43% of corporate treasurers today. The rapid growth in these funds is due to three factors: suppliers marketing this product to a wider audience; banks decreasing their use of balance sheets for low margin bank deposits; and the marketplace being better educated about the benefits of these low-risk instruments. These factors are some of the reasons why money market funds are the instrument in which treasurers are most interested in increasing their usage. *Figure 3* indicates which investment instruments treasurers are – and will be – allowed to invest in.

Most treasuries finish investing surplus funds by mid-day. However a significant minority leave investment to the afternoon when the markets are less liquid. There appears to be an opportunity to offer instruments that can be invested in later in the day.

Ninety percent of respondents receive between LIBID and LIBID minus 0.1%

> **"I was interested to see that time deposits have so much of the market when so many other products are available. Perhaps the Boards don't understand how they work, don't have the time to find out or just don't want to take the risk. This is particularly prevalent with smaller corporates."**
>
> *Survey respondent*

FIGURE 3

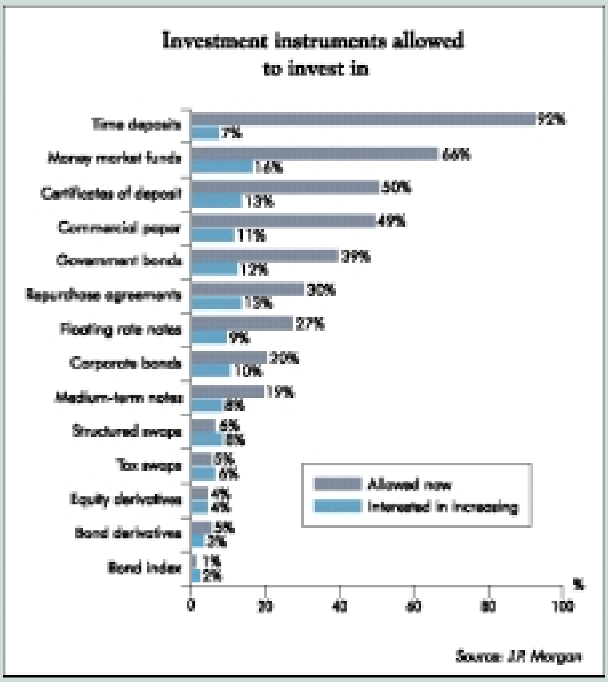


FIGURE 4

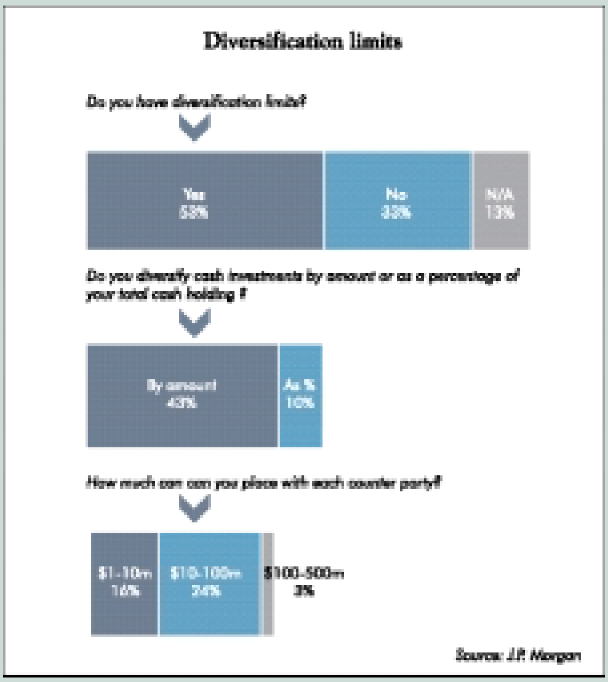


FIGURE 5

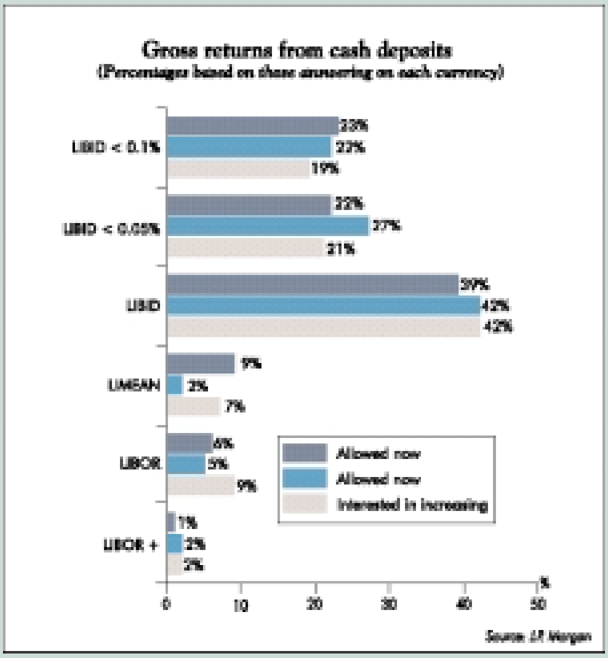
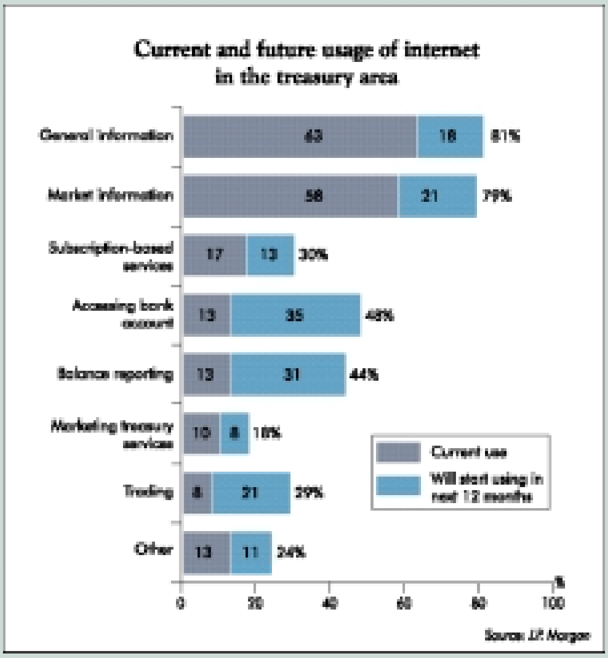


FIGURE 7



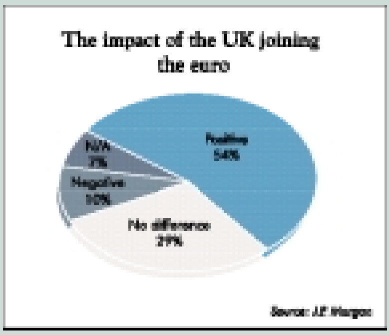
when investing surplus funds. On foreign exchange exposure, nearly three quarters of companies have to manage some kind of exposure. In 56% of cases that exposure results in a foreign exchange turnover of over $100m *per annum*.

"One of the things I have noticed with internet-based services is that treasurers' requirements are ahead of what the providers can offer – they promise a lot up front but when it comes to seeing the product, they cannot yet come up with what we want."

Survey respondent

The relatively high levels of foreign exchange risk may partly explain why 54% of treasurers regarded the UK joining the Economic and Monetary Union as having a positive impact on their businesses. Only 10% thought that it would have a negative impact (*see Figure 6*).

FIGURE 6



Sixty percent of treasurers regularly use the internet for business. The most popular purpose is to obtain general and market information. However, the areas where usage is expected to increase the most in the next 12 months are balance reporting and accessing bank accounts, which sends a clear message to these product providers. Banks are rapidly moving into web-based corporate banking rather than expensive proprietary systems. As a result, portal delivery of a wide range of treasury services should assist treasurers in becoming even more efficient and, through the use of artificial intelligence, treasurers should be able to make better decisions.

This survey was the first that the Association conducted online. We have learned a lot that will help to improve future surveys and response rates. Members of the Association appreciated the educational feedback of the survey and found real value in the instant responses and comparisons to their peers. The layout, with multiple choice answers, was easy to understand and the average time of 10 minutes to complete the survey was not considered too long. Incentives, such as the free prize draw to win a holiday, mostly led to positive feedback and the winner of the holiday generously decided to donate the prize to charity.

The lesson we have learned from conducting this survey is that respondents require even more assurances that their anonymity and data will be protected. We found that these were the main concerns for several treasurers and in future J.P. Morgan surveys, we will spend more time allaying these fears.

The results have proved very revealing, particularly in the areas of internet usage, investment instruments and risk management. We anticipate that a follow-up survey will be conducted next year, enabling us to produce a trend report. The Association and J.P. Morgan would appreciate any feedback you have on the survey, in particular, how we can encourage even more institutions to participate in future surveys.

Finally, thank you to all whom completed the survey. If you requested a report showing how your individual responses compared with the average of your peers, this report will be e-mailed to you by 15 December 2000. ■

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