Back to basics

Have you forgotten the principles of cash management? Sarah Boyce offers a refresher

Frequently defined as 'having the right amount of money, in the right currency, in the right place, at the right time', efficient cash management is key to the survival of any business, irrespective of the size of the organisation.

Ensuring that cash is in the 'right place at the right time' is largely achieved by putting appropriate bank account structures and funds transfer processes in place. Regular reconsideration of both these aspects of cash management is vital to ensure that the implemented solution continues to be fit for purpose.

The bank account structure

Banking structures can be designed currency by currency, country by country, or on a regional basis. Companies should set up structures that optimise their access to liquidity across currencies and borders (if necessary), while minimising interest expense.

When deciding upon an efficient account structure, some of the most important considerations for companies are:

- The nature, size and culture of the organisation. This also relates to its legal structure and the degree of centralisation that exists.
- The types of cash flows the company has. For example, a retailer taking coinage in a single country will have a very different set of requirements to an aeroplane manufacturer operating internationally.
- The number, type and location of the bank accounts that are needed. As a general rule, the fewer bank accounts there are, the easier they are to manage (and the costs are lower). But this will be offset by the requirements generated by the structure of the organisation, for example, a need for separate payment and collection accounts.
- Are overdraft or interest-bearing accounts required? In a perfect world, credit balances in bank accounts would earn interest, but this may not be possible legally and so a sweep of some type may be required. Likewise, overdraft accounts might not be available in certain jurisdictions.
- Whether and where to hold foreign currency accounts. A cost/benefit analysis may be appropriate to consider whether the volume and value of currency receipts and payments merit a currency account, or whether it is 'cheaper' to use an account denominated in the (reporting) currency of the organisation.
- How to maximise the efficient use of funds and minimise interest expense. This can be done by looking at overlay structures; notional pooling or cash concentration solutions; and the processes by which funds can be moved between accounts and/or across borders (remembering time zone constraints, cost of funds flow, etc).
- The banks that can provide the required level of service. The account structure a company selects will determine the type of bank it needs to use. Furthermore, banking regulation developed since 2008 may impact which banks are able to provide appropriate services.
- The legal, tax and accounting implications of any proposed solution. Who 'owns' the money and how is this monitored and reported? Countries can differ significantly in terms of their approach to tax, law and, in particular, exchange controls.

There are many ways of structuring accounts, with no single optimal structure. Regulatory and organisational issues mean that most companies will adopt a combination of solutions, which are adapted to their own requirements.

Funds transfer processes

There are a wide variety of methods for transferring funds. These range from cash and cheques through to electronic solutions such as BACS or SWIFT transactions. An organisation needs to ensure it uses the most appropriate method given the size, urgency, frequency and origin/destination of cash flows, while considering the offset between the cost of technology and the cost of delay in moving funds.

Conclusion

Cash management is one area of treasury that can just 'happen' if you don't take steps to ensure it is actively managed. There can be considerable upheaval in any major overhaul for the corporate (which is why cash management business is traditionally viewed as a 'sticky' annuity business by the banks).

As well as it being good practice, there can be material benefits (both quantitative – lower pricing and qualitative – more efficient processing) to regularly reviewing the structure and pricing of your cash management solution. This will enable you to make sure it is still suitable and that the pricing remains competitive – the perfect New Year's resolution.

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