GLOBAL BANKING REALITY CHECK

LIQUIDITY MANAGEMENT IS THE TREASURER'S MOST POWERFUL DEFENCE IN THE CURRENT CRISIS, BUT IT IS HAMPERED BY DIVERSE TECHNOLOGIES AND APPROACHES. BILL WREST LOOKS AT A CHALLENGE WHOSE TIME MAY HAVE COME

Invisible liquidity is unmanageable liquidity. This inconvenient truth remains as valid today as it was when the discipline of liquidity management first emerged. Furthermore, while it may be widely acknowledged, it certainly isn't widely resolved. The number of global multinationals who can honestly claim that their treasuries have 100% real-time visibility of all bank accounts worldwide is probably a figure tending towards zero.

Simple day-to-day processes have been exacerbated by the current crisis and treasury has been thrust to the strategic forefront of the battle in terms of group-wide focus on supply chain management, cash flow and protecting working capital. There has been a lot of talk recently about digital transformation and clearly now is the time to address systemic risk and key addressable gaps within the treasury function.

Yet the underlying problem that creates this situation is hardly a secret: effective plumbing, or rather the lack thereof. Ultimately, treasuries need a single consistent and increasingly immediate view of *all* bank accounts irrespective of the number of banks involved, but that requires consolidating multiple data streams that use myriad data formats and underlying technologies. A single consistent view of all accounts is perfectly achievable, but involves accepting that it is not a challenge that banks and corporates can readily resolve, either individually or together. Realistically, the involvement of a specialist fintech with extensive application programming interface, SWIFT, secure file exchange and financial data format expertise will also be required.

Global banking

Nevertheless, this is still by no means universally accepted. One frequently cited alternative is to use a single global banking relationship that fulfils all a corporation's transaction banking requirements worldwide. While this seems plausible at a superficial level, regardless of whether it is commercially advisable, it fails upon closer inspection of the practicalities. Firstly, is there really such a thing as a truly global bank that can offer 100% coverage worldwide using just its own network? Secondly, can such a global bank also deliver 100% consistency of technology and data formats worldwide? In either case, perhaps 90% at best, or maybe in exceptional circumstances even 95%, but not 100%.

As a result, for many global corporations, multiple bank relationships are simply a fact of life. In some industries, such as petrochemicals, relationship proliferation is an everyday reality where the winning of a new contract almost inevitably also involves opening an account with the same bank as the customer. It's therefore easy to see how treasuries can find themselves with hundreds of bank relationships and systems to manage.

> Access to this brave new world inevitably depends on having the right connectivity and visibility

The environment we are all having to come to terms with and the new norm in terms of the way we deal with things has evoked dramatic changes to our working lives. Treasury needs to be proactive rather than reactive, and to do this decisions need to be based on real-time or near real-time reporting and reconciliation. System connectivity, future-proofing of file formats, multiple payment siloes and reporting systems are key to treasury's ability to efficiently manage liquidity, mitigate risk exposure and protect working capital.

Some corporates have already invested in top end treasury management systems (TMSs) that are also sometimes promoted as potential solutions to multi-bank (in)visibility. Again the reality is more prosaic, because the core competence of a TMS is sophisticated financial analysis rather than systems integration. Therefore, a TMS will only usually be connected to just the top few of the corporate's bank relationships.

Logon and system proliferation

Probably the starkest physical illustration of the gulf corporate treasuries have to bridge in their liquidity management is the proliferation of bank logon tokens. It's not uncommon for larger treasuries to have a drawer full of tokens that they must search through just to assemble a report on their overall cash position. Then rinse and repeat for all the possible investment opportunities they need to screen before placing any cash surplus. Realistically, no single bank is going to be able to cost-justify building a single logon capability that includes all of a client's other banks. However, this is something a suitably qualified fintech can provide, by aggregating access to all of a corporate's electronic banking systems behind a single logon. Then a treasury only needs to sign on once to see and manipulate *all* the corporation's balance information across *all* its bank relationships. By the same token, they can also use the same portal to screen and place investments across their bank relationships, plus enjoy a consistent and enhanced experience for making payments more generally.

The easier placement of investments ultimately benefits both corporates and banks. Some banks offer excellent liquidity products, but in the current environment these are missing out through opportunity leakage. Treasurers have to traverse so many bank accounts and investments in such a fragmented manner that they may simply miss some of the most attractive opportunities, to the detriment of both parties. By contrast, in a single consolidated environment where all of the necessary plumbing has already been done behind the scenes, filtering and accessing the best investment opportunities becomes trivial. This can be done manually or automatically with preconfigured rule sets.

Real-time liquidity management

The already strong growth of real-time payment systems around the globe looks set to persist, with some research predicting close to 30% compound annual growth rate between 2019 to 2024[1]. This trend is fundamentally changing the whole business of liquidity management. Treasuries no longer need to be constrained by only having access to end-of-day batch-based data; real-time intraday liquidity management across a growing number of countries is now an achievable reality rather than just an aspiration.

However, access to this brave new world inevitably depends on having the right connectivity and visibility. While some bank liquidity platforms offer some additional visibility of third-party bank balances by polling for MT940s, this still constrains treasuries to 'following day' liquidity management. On the other hand, real-time balance visibility means that investments can be made before daily payment cut-off times, adding an extra day of return to surplus cash. At the same time, far more efficient management of intraday overdraft limits becomes possible, which is a key risk area if limits become a scarce commodity, because in normal times they are the rails that enable the flow of payments throughout the day. Granted, the extent of these opportunities will to some extent depend on individual banks' capabilities – for example, not all support intraday balance reporting – but in most cases treasuries will be able to make appreciable gains and/or savings.

This real-time balance visibility also opens the door to simpler and more cost-effective methods of intercompany funding and the optimal use of internal liquidity. Rather than the cost and administrative/legal burden of creating an entire physical pooling structure, a treasury with real-time visibility has the alternative option of funding subsidiaries on a just-in-time basis through an in-house bank structure.

Optimal versus suboptimal

One of the ironies of the current crisis and its unprecedented economic and market effects is that in a sense it re-emphasises the sheer scale of the liquidity visibility problem that has plagued treasuries for decades. It represents a vitally important new opportunity, but one that is effectively inaccessible without consolidated multi-bank connectivity. A further irony is that complete connectivity and visibility are already readily achievable with the assistance of the fintech community, but banks and corporates have hitherto opted to use suboptimal alternatives. Financial plumbing in and of itself may not be particularly enthralling, but the benefits to treasuries and banks of its correct deployment most are. Perhaps for treasury, this is one of the few positives to emerge from the current crisis in terms of now being the perfect time to evaluate the overall operation and whether it is truly fit for purpose against the backdrop of unforeseen challenges that now seem like daily occurrences.

1 feedroad.com/global-real-time-payments-market-2020-growth-analysis-and-forecast-to-2024

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