# TAKE THE PLUNGE

What are the benefits of global cash pooling and controlled disbursement structures? Robert Ford explains

Global companies should consider cash-pooling structures for interest optimisation. Such structures can be either physical or notional. 'Physical sweeping' involves the transfer of excess sub-account funds, usually referred to as zero balance accounts (ZBAs), to and from a concentration account. The activities are accounted for by booking an intercompany loan. In contrast, 'notional pooling' achieves similar results, but without any physical movement of funds or intercompany loans. The bank simply credits interest based on an aggregate notional balance.

For simplicity, this article will assume that physical sweeping is being undertaken.

## ZBAs and controlled disbursements

ZBAs allow a treasurer to disburse funds with a zero balance (or a specific target balance) in the account. Each ZBA is linked to a primary account, which receives deposits and disburses funds into the ZBAs as cheques and other debits are cleared. This automatic sweep function dramatically reduces the need for manual transfers and mitigates the possibility of overdrafts and associated fees. In summary:

**1** A primary account is set up. (Of course, there may be multiple primary accounts for different purposes, functions, geographies, etc.)

**2** The ZBA accounts are set up and linked to a primary account.

**3** Throughout each day, debits are posted to the ZBAs and balances accumulate.

**4** At the end of the day, funds representing the accumulated balances are automatically moved from the primary account to the linked ZBAs so that the ZBA balances are returned to zero.

This means just-in-time funding and transfers (ie disbursement accounts) are funded on an as-needed basis. The advent of this account structure is a significant milestone in the evolution of commercial banking. It has helped firms to transform their cash management practices to achieve administrative efficiencies and cost reductions. Some of the benefits include:

- **Lower effort and administrative cost.** ZBAs can mitigate the need for constant manual balance and transaction tracking, and the subsequent funding and levelling transfers.
- **Higher income.** By concentrating more funds in interest-bearing primary accounts, the assets of the firm will be deployed more productively. Funds are only moved from the interest-bearing primary accounts to ZBAs as cheques are presented for payment. Collections are promptly transferred to the primary accounts.
- **Decrease in fees.** Banks will still charge fees under ZBA structures, but the number of unnecessary fee-based transactions will decline. The number of wires will reduce substantially.
- **Lower subsidiary account risk.** Subsidiary accounts that are maintained at zero balances can reduce several types of risk – counterparty (bank default), sovereign (country default), FX and fraud (embezzlement).
- **Better overall reporting.** Real-time or near real-time dashboard reporting of cash may not be otherwise possible. Also, interest recorded at the corporate level can be allocated back to the subsidiaries.

## In-house account structures

Let's extend the concept of ZBAs to internal accounts, which help to provide greater efficiency in managing internal transfers and attributing transfer income and expenses. Once the primary concentration accounts are funded, they need to be allocated to each division or subsidiary operating unit. Ideally, this reconciliation will be automated, based on tags embedded in the payment instructions.

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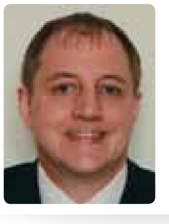
## Implementation considerations

A company's technological infrastructure needs to be sufficient to support a cash-pooling initiative. Treasury technology must be able to support the tracking of all transaction types, such as funding, investments, fees and all types of expenses. It must also capture any additional information that might be needed for downstream reporting and accounting. Flexibility and extensibility are especially important so that the solution can adapt as needs evolve over time.

For companies to achieve their cash-pooling objective, they will need someone who can assess costs and inefficiencies, envision the final outcome, compile a justified business case, and gather management support and sign-off. Stakeholders across the business need to understand how the change will affect their domain and must buy in to it. After all, long-standing banking relationships, policies, procedures and all related infrastructure could be affected.



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