

RISING TO THE CHALLENGE



THE SECOND JOINT SURVEY BY THE ACT AND JPMORGAN FLEMING HIGHLIGHTS THE CURRENT TRENDS IN UK CASH MANAGEMENT. JPMF'S **PETER KNIGHT** FOCUSES ON THE FINDINGS.

The year 2001 proved to be particularly challenging for companies. Risk management became an arduous task and corporate treasurers were put under increasing pressure to implement cost-cutting measures as the global economic environment deteriorated and earnings fell sharply. Indeed, the poor economic conditions served to highlight the importance of risk management and underscored the need to diversify.

It was against this backdrop that JPMorgan Fleming conducted its second annual online cash management survey, in conjunction with the Association. The objective of the survey is to provide an understanding of how corporate treasurers manage cash, as well as to identify trends in the market. The survey has become recognised as a benchmark for the industry and provides an invaluable insight into how cash management services and technologies are being used.

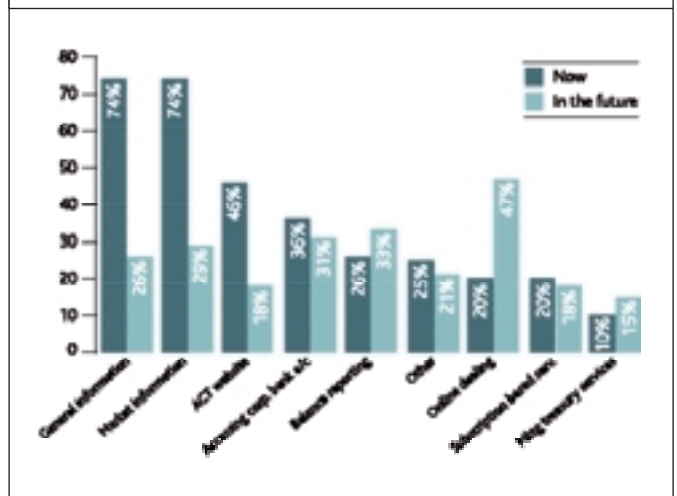
KEY FINDINGS. The questionnaire intentionally followed the same format as last year's survey, permitting useful comparisons to be drawn between the two, as well as enabling us to identify trends in the market. It encompassed a number of different themes within cash management. This year's study provided some very interesting insights into how companies manage their cash. The results on particular sections, such as outsourcing and credit, reflected the difficult market conditions and corporates' heightened awareness of risk.

The results from the internet usage and outsourcing sections were particularly interesting.

INTERNET USAGE. The internet appears to have penetrated the corporate treasury function and is beginning to be used for a broader range of treasury functions, such as transactions, reporting, market information and bank accounts, (see *Figure 1*). With online dealing expected to be the primary growth area over the coming year, the results confirm growing initiatives from liquidity fund suppliers to provide treasury portals and online banking facilities.

OUTSOURCING. A far more positive view towards outsourcing, compared with last year, reflects greater cost pressures within

FIGURE 1
INTERNET USES.



'A FAR MORE POSITIVE VIEW TOWARDS OUTSOURCING REFLECTS GREATER COST PRESSURES WITHIN TREASURY DEPARTMENTS AND A REASSESSMENT OF THE VALUE PROPOSITION OF TREASURERS'

treasury departments and a reassessment of the value proposition of treasurers in general.

RISK DIVERSIFICATION. A growing trend identified this year was the importance of diversification as a tool for reducing risk. Some 64% of respondents indicated that they have diversification limits.

This reflects the testing market environment mentioned above. However, given this year's more global survey base, we were surprised to learn that more than one third of respondents did not use counterpart diversification as a risk reduction technique.

CREDIT. The section on credit highlighted treasurers' increased awareness about risk, with virtually all respondents confirming that they check the credit quality of counterparties on a regular basis. Furthermore, the survey revealed that treasurers' minimum requirement for credit ratings is of the highest level.

COST OR PROFIT CENTRE. A contradiction to the 2000 survey emerged in the treasury function question. In the 2001 survey, less than half of the companies surveyed regarded the function to be a cost centre, whereas in 2000 the number stood at three-quarters. The result is surprising, as the role of the treasurer is to control balance sheet risk, rather than to focus on generating profits.

DEBT POSITION. It was also interesting to observe that the majority of companies were net debtors. However, this result has been explained by independent research that found companies held cash balances due to the uncertain times, rather than to pay down debt.

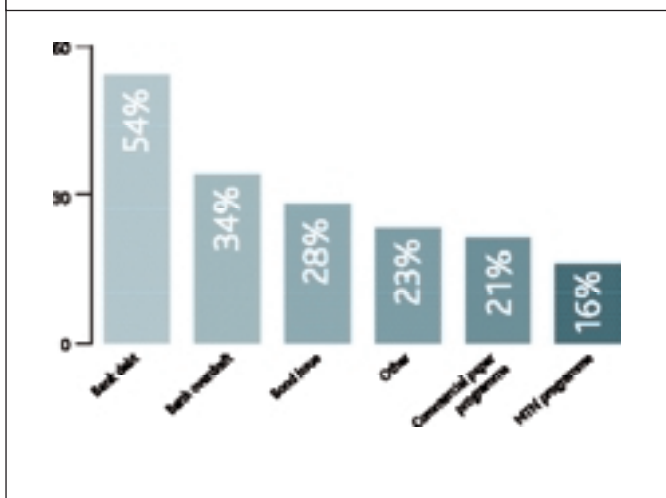
negative effect (see *Figure 3*). These results confirm 2002's findings that corporate treasurers are conscious of minimising risk, including currency risk.

CASH HOLDINGS. Within the cash section of the survey, we also noticed that the majority of respondents held balances of more than \$11m in more than one currency. Once again, this is most likely attributed to the multi-national stature of respondents, rather than any identifiable trend. When investing surplus cash, the majority of respondents expect to receive between LIBID and LIBID minus 0.1%, reaffirming last year's results.

FOREIGN EXCHANGE. The survey revealed that there was a larger turnover in foreign exchange, with most respondents indicating that they had foreign exchange exposure requiring management, while 11% confirmed that they generated \$10bn of foreign exchange turnover a year. Once again, this was most likely attributed to the fact that most respondents were mostly represented by larger multi-nationals.

INVESTMENT INSTRUMENTS. There has been an increase, across the board, in the usage of investment tools, with bank deposits

FIGURE 2
DEBT POSITION: BORROWING METHODS USED.



Where companies looked to borrow short-term money, bank debt and bank overdrafts remained the most popular methods of borrowing. Despite market volatility, bond and commercial paper issuance remained the most popular methods of long-term borrowing.

INTEREST IN THE EURO? Initially, we were surprised to find that when asked which currency base members favoured, sterling had reduced in popularity. Furthermore, we expected the dollar to have grown in popularity, given the dominance of multi-nationals in the survey. However, it was the euro that showed the most favourable increase – its popularity most likely explained by multi-nationals' increasing recognition of the euro as an important currency base. Some 47% of those surveyed stated that they thought the overall impact of the UK joining the euro would have a positive affect on their business, compared with 7%, who thought it would have a

THE CHALLENGES OF AN INTERNET-BASED SURVEY.

The main challenge in designing the internet-based questionnaire was to encourage participants to complete the survey. With this in mind, it was developed for clarity and simplicity to help speed up the process of completing it. In addition, technological enhancements provided additional features which allowed participants to compare their answers with the previous year's results or return to previous questions and amend their comments – and, as before, security and anonymity were guaranteed.

On completion of the survey, treasurers who supplied their email address were offered the opportunity to receive the results of the full survey and the chance to enter into a prize draw to win either a golfing holiday in La Manga, Spain, a weekend in London or the option to make a donation to charity.

Did these enhancements make a difference? Although the number of respondents fell compared with the previous survey, the composition of the sample size was of a superior quality and was notably dominated by multi-nationals. This accounted for some marked differences in certain results.

FIGURE 3
IMPACT OF JOINING THE EURO.

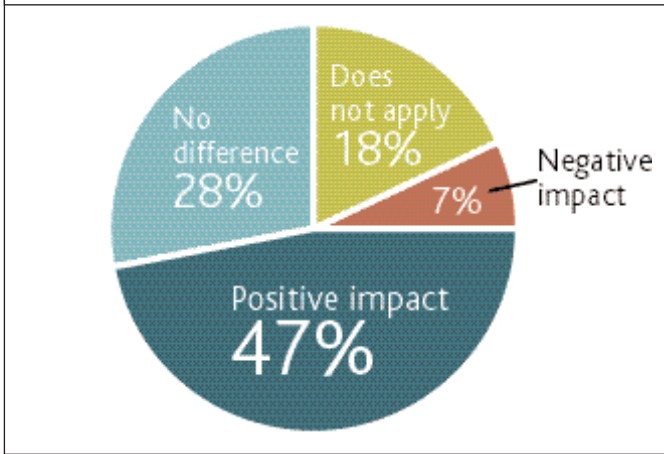


FIGURE 4
CURRENCY USED MOST FREQUENTLY TO DEAL WITH SURPLUS CASH.

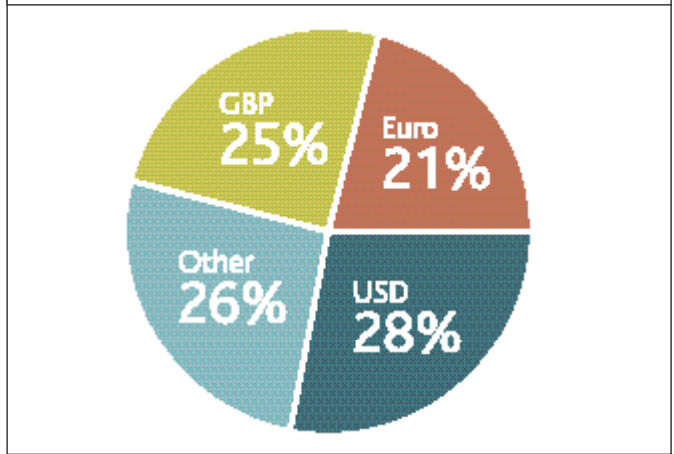


FIGURE 5
INVESTMENT INSTRUMENTS USED.

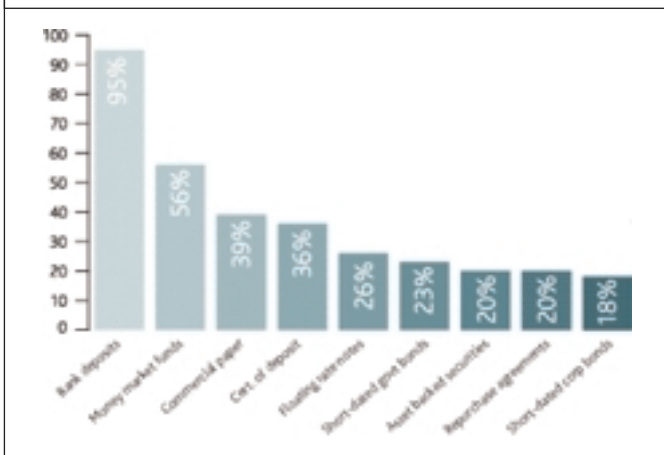
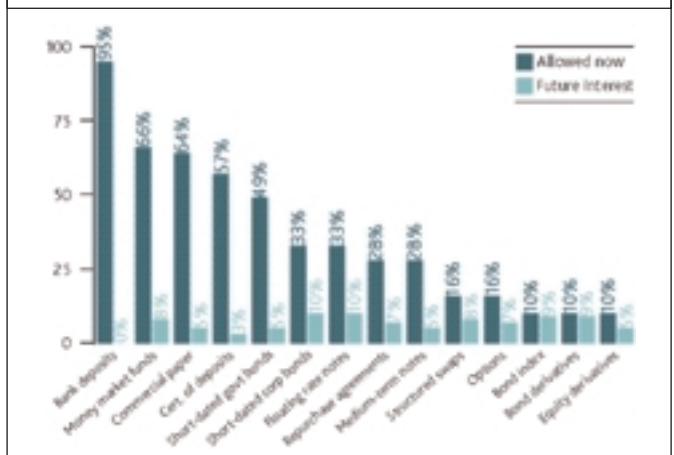


FIGURE 6
INVESTMENT INSTRUMENTS ALLOWED TO INVEST IN.



‘BANK DEPOSITS REMAIN THE MOST POPULAR FORM OF SHORT TERM INVESTMENT. HOWEVER, MONEY MARKET FUNDS HAVE INCREASED IN POPULARITY FOR THE THIRD YEAR RUNNING’

remaining the most popular (95% of respondents) when investing surplus cash deposits. Money market funds are the second most popular investment instrument, further evidence that the market place is becoming increasingly educated about the benefits that these funds offer. Popularity in these funds has increased to 56%.

VALUABLE INSIGHT. The survey produced some valuable insight into the current cash management market, as well as identifying certain trends that have begun to evolve.

In the 2002 survey, we propose to reinforce the online study with a telephone survey, as we believe that this will ensure that both the quantity and quality of responses will improve and that it will offer the opportunity for respondents to provide additional comments that add more value to the analysis.

In addition, we recognise that regional variations and geographical distribution of results can be of great interest and we will include a more regional analysis in the 2002 survey.

We look forward to next year’s survey and would like to thank all Association and IGTA members who participated in the survey. Given the challenging year ahead, we hope that it will prove to be useful in benchmarking business.

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The complete survey can be found on the Association’s website at www.treasurers.org and the JPMorgan Fleming Asset Management website at www.jpmorganfleming.com/liquidity. A hard copy of the survey can also be obtained from JPMorgan Fleming by calling 020 7742 5982.