

# BRUSH UP ON YOUR CASH MANAGEMENT TECHNIQUES

THE LATEST SURVEY FROM JPMORGAN FLEMING ASSET MANAGEMENT, IN CONJUNCTION WITH THE ACT, AIMS TO PROVIDE TREASURERS WITH A HELPFUL GUIDE ON EFFECTIVE CASH MANAGEMENT DURING THE CURRENT UNSTABLE ECONOMIC CLIMATE. **PETER KNIGHT** DISCUSSES THE FINDINGS.

Corporate treasurers continue to be under immense pressure to cut costs and effectively manage risk in a testing economic environment. Despite signs of an economic recovery, fears of a recession still linger and the importance of risk diversification has been underscored by a number of high profile accountability scandals, which have dominated the headlines in 2002.

The JPMorgan Fleming International Cash Management Survey, conducted in conjunction with the Association of Corporate Treasurers, provides a useful insight into how treasurers are managing corporate cash in this difficult environment. Since the survey also aims to identify trends in liquidity management, it is a useful benchmark for providers to understand their market position and how they may want to position themselves in the future.

**ENHANCING THE VALUE OF THE SURVEY.** This is the third survey to be conducted on the internet. The primary objective is to provide a useful and accurate analysis of treasurers' cash management practices and its value can only be improved by encouraging more participants to complete the survey, and to complete it accurately. So each year, we make modifications. We use the latest technology to enhance the survey, ensuring that participants are clear about the questions being asked and are able to provide informative responses in a reasonable time period.

As in previous surveys, security and anonymity are guaranteed and to encourage participants to answer all questions fully, we offer to donate £5 to charity for each completed survey. Thanks to the overwhelming number of responses this time, we are delighted to donate a total of £1,200 to the International Red Cross, our chosen charity.

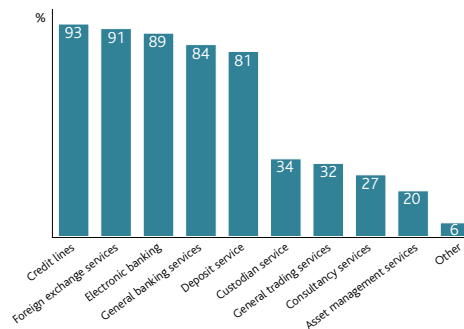
An additional feature in the latest survey was the creation of an editorial board. The purpose of the board was to ensure that the questions asked remained up-to-date and that the interpretation of the results gave a fair and balanced view. This proved to be a valuable enhancement, as the board offered some interesting remarks and their comments helped to substantiate the interpretation of the results.

**THE RESULTS.** Once again, the survey proved to be very successful in providing an insight into the current cash management practices of treasurers. We were very pleased to receive 240 responses, almost four times as many participants compared to the previous year. The quality of responses was also very high, leading to some very interesting conclusions and we were also interested to find that some of the results varied by region and company size.

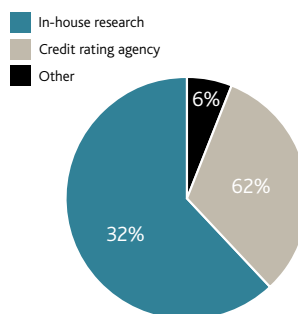
The questioning format followed previous surveys, permitting a comparison to be drawn on previous results and enabling us to establish trends in liquidity management. For example, the survey revealed that once again treasurers are mindful of the uncertain economic backdrop and the need to diversify their bank relationships with over half of the respondents stating that they have more than ten bank relationships. Some of the noteworthy trends that were confirmed included the growing use of money market funds as an investment instrument and the steady increase in the use of the internet.

The responses on investment instruments were particularly encouraging. Treasurers confirmed that money market funds are

## TYPE OF BANKING SERVICES USED.



## METHOD USED TO CHECK CREDIT QUALITY.



currently the second most favoured investment instrument after bank deposits and the most popular for use in the future. A geographical analysis revealed that about 70% of respondents with their headquarters domiciled in the US use money market funds, reflecting the strong market trends in these funds seen in the US. Furthermore, since only 37% of respondents with their headquarters domiciled in Europe use money market funds, we can conclude that there is considerable potential for growth for the use of these funds in Europe.

Geographical dispersions were also evident in the outsourcing part of the survey, where we found that US-based companies have a higher propensity to outsource than Europe- or UK-based companies. We found this to be unusual, since US companies tend to have the least tendency to outsource.

The results in the credit section were surprising. When asked what minimum credit rating was required to invest surplus short-term funds, respondents stated that they use long-term credit ratings instead. We attributed this result to the possibility that there was more familiarity of long-term ratings at the board level.

The fact that the majority of respondents indicated that they require the highest threshold when considering credit quality underscores the importance that treasurers continue to place upon credit quality.

With credit risk being a topical subject, we were particularly interested to see the results on how treasurers were checking credit ratings of counterparts and were quite surprised by the results. We found an unusually high proportion of respondents use in-house research to check the credit rating of their counterparts and we

believe respondents may have taken the independent tools that are available within the company to be classed as 'in-house'.

Some of the questions in the survey provided an opportunity for respondents to add their own comments. When reviewing the barriers that still exist regarding the euro, one concern identified was that the few pan-European banks that do exist only service the larger client. Useful feedback regarding the internet was the extent to which the services provided via the internet could be integrated with in-house systems. Indeed, the survey confirmed that internet usage continues to remain high and the use of bank portals is becoming more common.

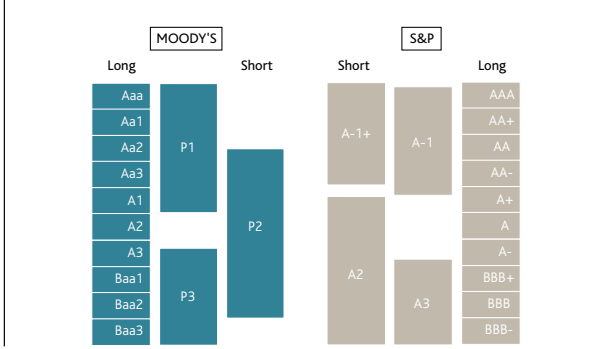
The survey produced some very interesting results, providing a valuable insight into the current cash management market, as well as identifying certain trends that have begun to evolve. We look forward to next year's survey.

We would like to thank all Association members who participated in the survey, and the board members for their valuable contribution. Given the challenging year, we hope the survey will prove to be useful in benchmarking business.

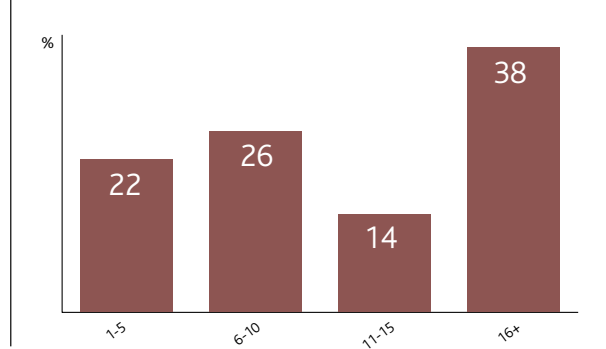
The complete survey can be found on the Association's website [www.treasurers.org](http://www.treasurers.org) and the JPMorgan Fleming Asset Management website [www.jpmmorganfleming.com/liquidity](http://www.jpmmorganfleming.com/liquidity). A hard copy of the survey can also be obtained from JPMorgan Fleming by calling 0207 742 5426.

Peter Knight is Vice President at JPMorgan Fleming Asset Management. [peter.w.knight@jpmmorganfleming.com](mailto:peter.w.knight@jpmmorganfleming.com)  
[www.jpmmorganfleming.com](http://www.jpmmorganfleming.com)

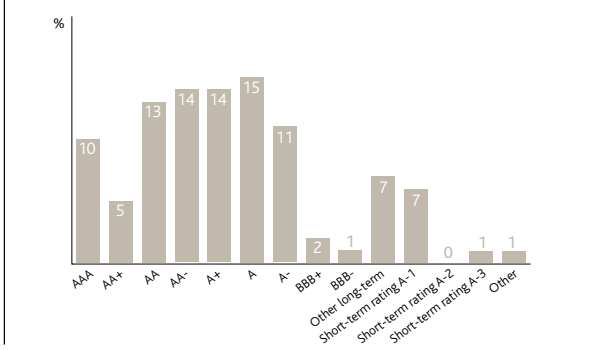
LINKING LONG- AND SHORT-TERM RATINGS.



NUMBER OF BANK RELATIONSHIPS.



MINIMUM CREDIT RATINGS FOR SURPLUS FUNDS.



INVESTMENT INSTRUMENTS.

