A PROGRESS REPORT ON POOLING

BRIAN WELCH OF THE USERCARE TREASURY CONSULTANCY FINDS OUT HOW SUCCESSFUL COMPANIES HAVE BEEN IN MANAGING THEIR EURO BALANCES THROUGHOUT EUROPE.

With the final stage of the changeover to the euro now taking place, I recently conducted a study on how companies are managing their euro balances throughout Europe. It was always expected that the introduction of a single currency for the European Union would offer key benefits to companies with activities in each of those countries and indeed wherever euro accounts are held. It was hoped there would be opportunities to set off credit euro balances with the same bank in one country against debit balances in another, and also to reduce the cost of transferring euros between countries. There is now evidence that these benefits are difficult to achieve for all but the strongest companies, with a limited number of banks. These may be companies which provide a lot of income for their banks, or are so important that the bank will do as much as it can to keep the business. It is not really a matter of cross subsidising cash management costs.

The purpose of the study was to identify how successful companies have been in managing their euro balances throughout, Europe and what and where difficulties have arisen. Information was received from 66 companies spread in all industries – manufacturing, utilities, retailing and services, in domestic, pan-european and multinational companies. The only link was some connection with the Association of Corporate Treasurers, which probably indicates a bias towards proactive liquidity management, and a higher response from companies which had achieved some progress. Similarly, there was probably a lower response from those which had not yet succeeded in setting up a pooling arrangement. A summary of the findings is shown in the *Table 1*.

THE POOLERS AND SWEEPERS. Of the 66 replies, 36% reported an arrangement to pool their euro balances. This included sweeping and semi-manual solutions. Another 8% indicated they were planning to start pooling in 2002. A small number of other firms, with activities in each of the euro countries, manage each one separately by choice, and are sufficiently large to be able to operate independently without pooling

It has proved difficult to pool notionally between particular euro countries, and the most frequently adopted alternative has therefore been to sweep euro balances to one country, and pool them at that point. There are different interpretations between the banks about the legal position of subsidiaries in some countries, which has affected the structure of the solutions offered between banks.

Pooling and sweeping does seem to be more difficult in some countries than in others, and the problems experienced have varied in almost every case.

The most frequently quoted issue was that the banks offering solutions did not have a presence in every country, so that the process was complicated with the use of correspondent banks. Significantly, the banks able to offer the best overall European coverage are from the US, although they do not have a large network of branches in any single EU country.

Companies have also found that internal relationships and local company culture have hindered the process, and there has been a natural reluctance to move from long-standing existing banks, often providing credit facilities in a location which is convenient for the local operation.

As a result, a further refinement to sweeping, has been to retain existing banks, and to establish an overlay of euro accounts in each country into which euro surpluses are transferred.

Overall, the level of satisfaction with the solutions provided is mixed, with some corporates very satisfied, but others less so –

TABLE 1
PAN-EUROPEAN EURO POOLING – BREAKDOWN OF RESPONSES.

Pooling/sweeping taking place	36%
Pooling/sweeping – starting shortly	8%
Other multiple euro solutions	3%
Multiple euro balances but not yet pooling	21%
No euro exposure	27%
Limited euro exposure	5%

Total replies: 66 companies. Survey conducted November 2001

TABLE 2
WHAT PROBLEMS WILL YOU ENCOUNTER?

Not possible to pool notionally	Zero balance sweeps difficult to arrange	Central bank reporting	Value date problems	Local taxation
Belgium, Spain, Italy	Austria, Finland, Portugal, Italy, Greece, Luxembourg.	Italy	Italy	Portugal

TRUE MEANINGS

☐ **NOTIONAL POOLING.** Balances in the same currency are off-set against each other so that only the net balance needs to be managed.*

☐ **ZERO BALANCE SWEEPING.** This is where balances on local accounts in one country, are transferred to a central treasury account, resulting in 'zero' balances on all of the other accounts. This clears accounts that were overdrawn and the balances from accounts that were in credit. Sweeping can be done daily, or less frequently as necessary.*

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complaining that the implementation has taken much longer than was originally promised – and in some cases not delivering all that was promised. In other cases, it has been local regulations (or interpretation of those regulations by the banks), which has caused difficulty. Some countries were mentioned more often than others as the place where it was most difficult to achieve objectives, namely, Italy, Spain Greece and France. Specific comments can be seen in *Table 2*.

THE NON-POOLERS. There was a significant proportion of companies (21%) with some exposure to the euro which had not, for various reasons, been able to establish any system to manage their euro balances in a co-ordinated manner. This included some very substantial companies, with operations throughout the EU. In some cases, there have been important internal reasons why nothing has yet been done, and it should not be regarded as a criticism of the company if no system has yet to be established.

Companies have been critical about the lack of pooling services which are available and the difficulty in getting their banks to come up with a solution, while some companies activities are concentrated in countries in which it is most difficult to get any pooling arrangement in place.

It is therefore fair to say that where a company is not yet pooling its euro balances, this should not necessarily be taken as a failure on the part of the company, as quite a few of them have tried but have been discouraged by their banks.

Several corporates have reported putting the process out to tender, and have still not succeeded in identifying the best solution.

THE BANKS. The study has indicated that there are only three banks which have been providing a solution in any volume – two US banks and one European bank. The problem for the majority of European (including the UK) banks is that hardly any of them can offer EU-wide coverage.

That is not to say that they cannot offer a solution to their customers, but it appears to be a bespoke approach, including the use of correspondent or partner banks. This may suit larger companies but the overall cost is likely to be higher.

THE BENEFITS. The prospect of pan-european euro pooling, or sweeping, offers potential savings and benefits to any company which operates in more than one EU country. The companies which have succeeded in establishing pooling or sweeping have generally reported a combination of savings. They are:

- INTEREST. Clearly, if some companies within a group are in deficit, while others are in credit, the pooling of euro throughout the group should reduce unnecessary payment of interest, and may be able to concentrate credit balances to enable a company to maximise any interest earned. Lower interest rates may have eroded this benefit but can still be important.

- TRANSACTION CHARGES. Transfers of euro between different countries are still too expensive and too slow, in spite of the various national and Europe-wide transfer systems which have been developed. Where a notional pooling solution has been achieved, these charges and time differences can be eliminated, but only a few companies have been able to achieve such a solution. Zero balance sweeping is more expensive, with daily (cross border) transfers, although they tend to take the form of a monthly administration charge, which may benefit larger companies. That is not always the case, and at least one company reported that the charges by its local banks were lower than the cost of sweeping.

- INTERNAL SAVINGS. The most difficult savings to identify are the internal ones, where the process of eliminating manual transfer instructions may have freed up treasury and back office personnel for more productive functions, but there was evidence that there have been significant internal savings for some companies.

FAR FROM SATISFACTORY. Two years after the introduction of the euro, companies are still experiencing difficulty in establishing any kind of pan-european euro pooling (or sweeping) system. Although several banks have developed solutions, they appear to be like Henry Ford, offering 'any colour as long as it is black', and as all companies are different it is not surprising many of them are not satisfied. The market still seems to be looking for a flexible solution, to reap the potential benefits of the euro.

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