Cash tango

KAREN BOXALL AND **LAURA FRANCO** CONSIDER HOW BEST TO IMPLEMENT AN EFFICIENT CASH MANAGEMENT STRUCTURE IN LATIN AMERICA.

In theory it is a great idea: your cash management structure in Europe works so well, why not replicate it in Latin America? So you look at it a little closer – only to find that each subsidiary has 10 or 12 accounts, each with different banks; perhaps not quite so easy, then. In implementing an efficient cash management structure in the region, treasurers have to overcome obstacles not only to liquidity management but also to payments and collections.

FINDING A BANK Each Latin American country has its own rules for managing payments and collections, so you need to ensure your bank covers all the services you may require. You need to find equilibrium between global and local bank relationships. Your global banks have strong capital ratios and are your core relationship banks – you are, of course, committed to dealing with relationship banks. Local banks, however, do have that domestic footprint and a relationship with the local entity. Payroll and tax payments and collections all favour a local banking setup.

Ideally, you find a bank that covers both roles. You're looking for a strong local bank in as many of the countries as possible with a complete range of services and with intensive IT capabilities to create the required global connectivity.

PAYMENTS AND COLLECTIONS You should ensure that connection is through a secure and standardised multibank channel for retrieving information and sending transaction files from a single entry point. It should receive a single format for account reporting and be able to send a single format to every bank with which the corporate wants to process payments.

On the connectivity side, SWIFTNet and host-to-host connections are gaining momentum and are starting to be a reality for working with larger regional banks. A single connection for the whole region brings economies of scale, greater security and ease of use. It gives regional and global banks a competitive advantage over local ones as it allows large corporates to reduce their pool of banks by using multicountry partners.

File formats can cause some fun. There is still no unified payment system in the region and each country has around four different clearing systems and different local formats for settling payments. There is some light in the tunnel, however, as ISO 20022 is becoming the new XML-based global standard that international banks are working towards.

To cover this issue, some banks offer a specific solution for corporates: a single connectivity point, either through SWIFT or a

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host-to-host connection, and added value services such as a mapping tool able to receive customers' proprietary format files and generate local format outputs, allowing straight-through processing in-country.

Collections are interesting too. Unlike Europe, Latin America is a region where branch-related collections still have a strong weight; however, collections processes are surprisingly efficient as there are barcoded invoices or supplier cards that allow fast and error-free collections processing at bank branches. Of course, you need to have a bank with sufficient branch coverage in the region.

LIQUIDITY MANAGEMENT Most of the above are IT-related hurdles and well-prepared banks should be able to get over them. Liquidity management, though, is not so easy to deliver in the face of tough and volatile tax and legal regimes.

There are foreign exchange (FX) restrictions with some non-convertible currencies, and enough paperwork to test the resolve of the most avid bureaucrat. Approval is often required for international transactions, and financial transactions taxes often apply to debit and credit entries, even at a local level.

Regulation has improved to allow cross-border cash pooling in Mexico and Chile. In Peru, cross-border cash pooling is possible but the tax impact makes it less attractive. In Colombia an enhancement to the 0.04% financial transaction tax makes alternative structures to avoid the tax no longer possible (previously fiduciary accounts, investment accounts via broker houses, overdrafts and loans were all used). On the bright side, the Colombian government has stated that it will eliminate the tax in the mid-term.

Some corporates place local overnight deposits and also use FX swaps in those countries with strict regulations such as Peru, Chile and Colombia so they can convert local currency into US dollars and take the money out of the country. Other corporates are looking to notional pooling as an option but national withholding taxes and regulation make this option less attractive.

There are challenges to establishing cross-border cash management in Latin America and there is no definitive answer as yet, mainly because of local country/currency restrictions. However, each corporate has its own requirements and a tailored (if not perfect) solution can be found.

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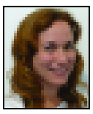

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