A changing world

THE EVOLVING REGULATORY LANDSCAPE AND ONGOING ECONOMIC UNCERTAINTY ARE DRIVING THE TAKE-UP OF SOLUTIONS THAT SEEK TO ACTIVELY MANAGE CORPORATE LIQUIDITY, SAYS **LISA ROSSI**.

Liquidity management practices for corporates are evolving, with the three key drivers currently informing best practice in this field being regulatory change, the fallout from the financial crisis and the subsequent economic downturn. These factors have combined to move liquidity management up the agenda for many corporates, while also emphasising the need to implement more efficient liquidity structures.

For European corporates – and others with significant operations in the EU – the ongoing implementation of the Single Euro Payments Area (SEPA) will have a notable impact on cash management arrangements. The harmonisation of payment and collection standards will open up possibilities for making more efficient use of tools such as balance sweeping and cash concentration while also offering opportunities to consolidate the number of accounts and banking relationships maintained.

Aside from initiatives such as SEPA and the associated Payments Services Directive, the turbulent economic climate of the past 18 months has also affected attitudes towards liquidity and cash management. Initially, a tightening credit environment raised the importance of actively managing transactions and liquidity to make the best use of idle funds and maintain a desirable working capital position. As many economies went into recession, efficient liquidity management could often mean the difference between stability and survival for those organisations most affected by the crisis.

While the global economy now appears to have turned a corner, levels of uncertainty remain high and it appears that the long run of favourable conditions enjoyed in the late 1990s and early 2000s has now come to an end. Indeed, for many corporates, this deterioration in conditions has brought into focus inefficiencies in existing structures and practices that had not previously presented a problem. Efforts to address these issues are likely to follow several broad themes: centralisation, automation and consolidation.

While these themes have, of course, been working behind the scenes in corporate treasury for some time, they have now taken on a greater urgency. Eliminating the duplication of practices, reducing manual input and the number of banking relationships, and bringing similar processes together to improve visibility are all strategies likely to free up time for corporate treasurers to take a more strategic view of their business. These measures can also be self-reinforcing as centralisation often opens up greater opportunities for consolidation and automation.

A further driver of corporate behaviour in this space has been global interest rates. While rates have fallen to historically low levels over the past years, the environment is finally changing. This will broaden the range of investment options

open to treasurers, as well as having a significant impact on many aspects of risk management within corporate treasuries.

Irrespective of these differing sets of drivers – regulatory initiatives and a changing economic environment – the key goals of any liquidity management strategy are likely to be making the best use of a company's cash at all stages of a working capital cycle while reducing any reliance on external borrowing. In this respect, there are several techniques available, some of which have been enhanced by the development of new platforms and systems by practitioners such as Deutsche Bank, while also being made easier to structure thanks to initiatives such as SEPA.

IMPROVED TOOLS One technique that, in Europe, has been profoundly affected by the ongoing harmonisation of the payments landscape is physical cash concentration. Creating a single liquidity position across countries and a range of accounts and/or subsidiaries through moving funds to a target location has been made easier by the phasing out of local differences in payment standards and practices. This is a process that can work on both positive and negative cash balances. Funds can be swept up into a target account to maximise credit interest and taken from the target account to cover debit balances and minimise interest paid. Indeed, managing credit exposures more efficiently can free up resources to allow a greater focus on how to manage any excess cash – something that will become more pertinent as we emerge from a period of restricted liquidity and the global recovery continues.

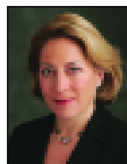
There is a huge amount of potential for tailoring these basic processes to meet the complex needs of large corporates. For example, parameters can be applied to achieve target balances in certain accounts while additional concentrations can be set up to take place on specific dates in order to manage the relationship between the different entities of a single group. Indeed, the scope of what is possible is continually developing as technology moves on and transaction banks bring more sophisticated products to market. For example, Deutsche Bank's Global Cash Concentration (GCC) solution allows cash to be managed globally from a single location as well as offering services such as enhanced accounting information to assist active investment decisions.

Depending on the regulatory environments in question, the ease with which structures such as physical cash concentration can be realised will vary greatly, and there are related techniques available where the ideal solution cannot be implemented. For instance, one related technique is notional cash pooling whereby account balances are offset "virtually" and the cash in question does not actually leave the designated accounts. The benefits of using such a technique are similar to those available through physical concentration. However, thanks to local regulations in some jurisdictions, this approach can sometimes be more difficult – or even impossible – to implement. Indeed, it is often the case that large corporates with complex needs will implement a structure that uses a range of related techniques to achieve the desired outcome across a range of local markets, or even between regions.

Of course, from a provider's perspective, when offering clients established cash management products, such as concentration and pooling, it makes sense also to attend to the broader needs experienced by a modern treasury. In this respect, Deutsche Bank offers related services such as foreign exchange – supported by the award-winning multicurrency platform FX4Cash, which provides access to money markets and related asset management services.

FUTURE TRENDS While measures such as cash concentration have been in existence for some time, the scope of what is possible is steadily growing. For example, instead of establishing structures for just euro or US dollar balances, many corporates are now looking at extending these arrangements across entire regions, or even globally. Indeed, technology upgrades from banks mean that the leading institutions are now able to offer solutions that can take a global perspective on corporate liquidity management.

In addition to enhanced e-platforms and the rise of web-based solutions, harmonisation efforts are ongoing in many regions – SEPA is just one example – and this will only lead to a greater interest in actively managing liquidity between local subsidiaries. Despite ongoing uncertainty surrounding the global economic outlook, the globalisation of working capital management will likely continue unabated.



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