Perfect mobility

FUNDING GLOBAL GROWTH IN TODAY'S ECONOMY REQUIRES THE AUTOMATIC UPSTREAMING OF CORPORATE CASH TO CENTRALISED MULTBANK HUBS SO THAT IT CAN BE USED WITHIN ANY GEOGRAPHY, AS **RICHARD KING** AND **MATTHEW DAVIES** EXPLAIN.

The need for appropriate operational risk management has been well documented since the financial crisis as corporates set about getting to grips with the new business environment. This area remains a key priority for most companies, and is considered more important today than a year ago, according to a cross-sector client poll recently conducted by Bank of America Merrill Lynch.

However, in recent years, as operational risk management has witnessed a step change, the different facets have also continued to evolve. While clients have been only too aware of the perils of counterparty risk ever since the financial crisis made apparent the consequences of not knowing with whom you were trading, other risk factors have become increasingly prevalent. For example, inflation risk, a problem played out across global economies, has been coming to a head in recent months as the consequences of such high levels reverberate, and sovereign risk has also been making the headlines as a result of euro zone instability and the unrest in the Middle East.

THE NEW LANDSCAPE OF RISK So what does it mean to be a corporate treasurer in 2011? Prior to the financial crisis, this function was a fairly orthodox role. But in recent years the treasurer has become the unsung hero of the corporate, ensuring that it is properly geared up to play its full part on the global business stage. Treasurers have been assigned increased responsibility for corporate financial needs, cash and risk processes.

Steve Barnett, associate partner in the financial services division of Deloitte, charts the evolution of the role of the corporate treasurer in recent years: "The demands on a corporate treasurer have changed. Their new role requires greater responsibility, demanding they take a greater lead on strategy, risk management and investment on top of their traditional remit. Increasingly, greater cash management efficiencies, improved access to cash and enhanced transparency around cashflows are all necessary in order to better manage a global business, and corporate treasurers are now taking the lead on this."

THE CHANGING BANKING LANDSCAPE Corporates are now adopting a more cautious and conservative approach to their banking providers as a consequence of the financial crisis. Today they are increasingly choosing to spread risk, both globally and regionally. This ensures they are not dependent on any single global bank or small group of regional banks. Rather, they are choosing to work with several banks that can act as best-in-class providers in each territory, and then brought together into one central multibank hub by a global overlay bank.

This structure furnishes the client with the capability and geographic reach of a global banking network. It brings greater visibility to a corporate's liquidity management; it allows companies to monitor their multibank treasury operations more closely; and it affords greater flexibility around analytics so treasurers can see all their positions from around the world in one snapshot. This means that the disparate processes which proved to be weak and left corporates exposed during the financial crisis have been replaced. Instead, the new corporate treasury function is characterised by integrated worldwide solutions to cash and liquidity management challenges, and we are seeing the centralisation of cashflow and the rationalisation of banking relationships.

Not only does this help corporates better manage their counterparty risk by spreading it across numerous banking relationships, it also allows the treasurer to seek more diverse sources of funding.

Daniel Robrechts, senior vice president of corporate treasury at Deutsche Post DHL, has taken note of the lessons learned from the financial crisis. Companies such as his have moved with the times when it comes to banking providers and taken steps to spread their counterparty risk, while still addressing their global treasury needs.

"Growth has been a key focus for the company as we try to build the future out of the financial crisis," explains Robrechts. "As a global organisation, we are exposed to all areas of financial risk. Given we are spread across so many countries, we need to mitigate the threats posed by counterparty risk, liquidity risk and currency risk."

By bringing together a standardised model from all the countries where a corporate operates, the nexus of banking relationships can be centralised with overlay services that enables the corporate to automatically upstream its cash into a centralised hub and then move it around its operations to be utilised within any geography. This provides a much safer option than dealing with banks that do not have a robust counterparty reputation and would otherwise pump needless credit risk back into the financial supply chain.

GETTING MATCH-FIT FOR GROWTH As the economic situation continues to stabilise after several turbulent years, corporates are turning their attention to cementing their positions for growth. Most corporates have spent recent years refinancing and securing their banking facilities, helped by more favourable credit and bond markets. Although the credit market is gradually becoming more robust, it is still expensive compared to the boom years. Borrowing remains a last resort, particularly with interest rates set to rise, hence the need to mitigate reliance on this avenue of funding and enhance the ability to move funds around the world in a timely manner.

Nigel Youngman, group treasurer of G4S, says this area is increasingly a priority: "Attention is definitely turning to how growth can be funded and we are devoting a lot of resources to our funding preparation. Currently, there is less appetite for dependency on bank financing but whether growth is achieved organically or via acquisition, we need to ensure the necessary funding is in place. Part of this comes from enhancing our cash management capability to ensure we maximise our working capital and can derive greater efficiencies in getting cash to the right territories across our global operations."

Cash maximisation is an important part of this, where flexibility is required to move with a corporate's needs. Naturally, as the client's business evolves, so will its funding needs, but this approach helps support the financial supply and is critical to making a positive impact on business and profits. It is crucial that the processes in place allow treasurers both to centrally manage their risk and their currency exposures worldwide and to help ensure they have a single snapshot of all their global balances. Through centralised liquidity management, cash can be taken from almost anywhere in the world and physically delivered to any given location where there is a funding requirement, and so used in the most efficient way.

This is not the only benefit. The automation of all positions facilitates a global view of liquidity, which can not only arm the treasurer with an all-important snapshot, it also gives treasury, along with its global banking provider, the flexibility to provide bespoke solutions in any geography and currency.

THE NEW GENERATION OF TREASURY FUNCTIONALITY THAT CORPORATES ARE NOW DEMANDING IS BUILT ON A GLOBAL VIEW.

PUTTING WORKING CAPITAL TO WORK At the peak of the financial crisis, when the cost of credit was very high and a corporate's cash reserves were beleaguered, this provided the strategic imperative to ensure more effective management internally to pay down debt or to invest back into the company.

These days, not only is the smart application of a corporate's cash essential, but operational risk management extends to ensuring the adequate use of working capital throughout the cycle. Preservation of capital and its liquidity is driving businesses today, and necessitates cash mobility, whether physical or notional concentration.

Providing centralised automation can assist the flow of internal cash and relieve stress from a credit standpoint for clients by providing a global concentration of surplus working capital that can instead be deployed. It also frees any local resource tied into manually intensive treasury management processes.

The pressure is on for treasurers to enhance the financial flows of their company to maximise performance throughout their financial supply chain. Indeed, according to our client poll, the financing of the supply chain is very much preoccupying clients right now. This is providing a greater impetus for corporates to ensure that their local currency cash around the world is accessible, can be easily converted to a base currency and utilised to provide internal funding – not only to meet their diverse needs but also to enable cash to be recycled.

MANAGING CURRENCY RISK Along with increased globalisation, corporate treasurers today have to juggle their operations in more currencies and more locations than ever. This means that treasurers must accommodate the risks, challenges and opportunities of doing business on a global basis and contend with the risks associated with additional new currencies in their financial supply chain to manage that exposure.

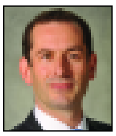
With currency values based on economic and political factors, fluctuations across any of the currencies around the world in which a corporate deals will have ramifications for the balance sheet, creating volatility on anticipated earnings.

Today, companies are looking at their policies across the enterprise as a whole to ensure they operate with adequate visibility and control of their cash so they can make it work for them and take adequate management of their FX risk centrally. To this end, treasurers are increasingly seeking integrated worldwide solutions to their cash and liquidity management challenges reflecting their enterprise-wide approach to post-crisis risk. As they enter new territories, ensuring the right structures are in place is critical to guaranteeing certainty of their treasury function there.

Youngman adds: "Our geographical spread is vast and diverse. We operate across 125 countries, often with differing requirements and regulations. We have to contend with all the elements you would associate with operational risk. Whether it's rising oil prices for our truck fleets – which is a key risk area for us right now – or looking at how we derisk our pension scheme, we need to be in touch with all our relevant decision-makers across the various operating companies to ensure we have the right information to make strategic decisions based on growth, whether organically or through acquisitions."

GLOBAL TREASURY The financial crisis was the wake-up call which many corporates needed in order to re-evaluate their operational risk management and scrutinise the robustness of the processes they have in place. The new generation of treasury functionality that corporates are now demanding is built on a global view. It not only arms the treasurer with an all-important snapshot, it also helps give the global banking provider the flexibility to work with each client on a case-by-case basis and provide bespoke solutions in any geography and currency via integrated solutions across payments, collections and liquidity, with visibility, transparency and robust security features, aided by eBAM (electronic bank account management). The combination of proven expertise and a commitment to delivery beyond just cash management to provide information and liquidity to every required corner of the world enables treasurers to centrally manage their risk worldwide and bring new efficiencies to the business.

Richard King is head of UK & Ireland corporate banking for corporates at Bank of America Merrill Lynch.



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