# SHINE A LIGHT

## Use technology to gain better visibility of your company's cash, advises Bob Stark

Cash visibility is fundamental for corporate treasurers to do their jobs. Visibility must be both timely and accurate, to enable a series of effective financial decisions to be made. Organisations that lack perfect visibility risk minimising their cash returns, underestimating the amount of cash they require and exposing their cash flows to unnecessary counterparty or financial risks.

Technology plays a strategic role in achieving cash visibility. This is because manual techniques to improve an organisation's view of its cash are both complicated and time-consuming, preventing proper cash management practices from being completed efficiently or even being undertaken at all.

**Importance of visibility**

While banks and technology providers lead many treasurers to believe that treasury's ultimate objective is to gain visibility into global cash, perfecting this is more like reaching base camp than the peak of the mountain. Sure, visibility is an important step that you need to achieve. But getting there is really a launching point for the rest of the journey.

Cash visibility in itself is not the goal; it's the enabler for the organisation to reach its financial goals. In fact, it can be argued that cash visibility is critical not just to the financial goals, but also to the overall organisational goals.

A CFO armed with perfect visibility into cash across all entities and all geographies is empowered to make strategic decisions on corporate investments and M&As,

### THE KEY TO FORECASTING: THE FEEDBACK LOOP

Measurement – and an organisational commitment to 'rinse and repeat' to improve the accuracy of forecast inputs – is the most important step to achieving forecasting excellence. Knowing the accuracy of your forecast by line item, by business unit and by geography, is excellent information. Without a feedback loop, however, measuring accuracy alone is a useless exercise.

By shoring up the sources of forecast data to be more accurate and reliable, treasurers and CFOs can be more confident about making strategic decisions based on this forecasting intelligence further into the future, increasing the value of their own roles within the organisation.

Technology is truly the enabler for treasurers, CFOs and businesses achieving perfect visibility of cash. But it must be used effectively to get the optimal results, and this requires a sound cash management strategy. The right systems combined with the right processes will always make that objective a reality.

as well as on long-term business planning. Every stakeholder, potential borrower or investor will evaluate the company's ability to generate cash flow and manage liquidity. So it is critical for an organisation's executives to not only have this information, but to proactively manage its importance, to stay ahead of the assertions of shareholders and analysts.

Many discussions about cash visibility include cash forecasting, for good reason. Visibility into current cash held on account is important information. Yet knowing how those cash balances project tomorrow, next week, next month, next quarter, etc, is equally – or even more – valuable than today's bank reports. As a result, forecasting must be included in all efforts to improve and perfect cash visibility.

**The power of many**

A variety of technology tools exist, which, when integrated together, provide invaluable streams of information to enable visibility as well as the ongoing analysis of cash flows.

Treasury management systems (TMSs) often play a central role, simply because they offer the ability to automate, consolidate and analyse cash data. Automation ensures that cash visibility is timely and cost-effective. Consolidation brings together multiple streams of data from different internal and external systems. Finally, analysing data, including cash variances from forecast, ultimately improves forecasting accuracy. It is very important to have one solution that aggregates all cash data to ensure that visibility can be reported and disseminated to internal stakeholders. No CFO or CEO will stand for multiple reports or spreadsheets being laid across their desk or separately emailed to their smartphone.

Bank reporting systems are critical, since the calculation of available cash starts with reporting of bank balances and transactions on a daily (or intraday) basis. Most bank reporting is automated, with feeds sent directly to a TMS, to minimise the time and costs of collecting this information.

Internal systems, such as budgeting, enterprise resource planning, payables and receivables, must be integrated, so that forecast cash flows can be consolidated together, delivering insight into expected cash flows. Business intelligence solutions may also play a role, depending on the abilities of the treasury system.

## IMPLEMENTING A VISIBILITY SOLUTION

**Bank connectivity**

The first step in cash visibility is to establish bank connectivity. Most organisations maintain numerous bank relationships, so multi-bank reporting is a must. Treasury teams without a TMS will find it difficult to automate this process, thus inhibiting the timeliness and cost-efficiency of the reporting that they get. Those with a TMS will probably have selected a technology partner that offers multiple methods of connectivity, including:

- **host-to-host connections** (for example, file transfer protocol);
- **regional protocols** (for example, the Electronic Banking Internet Communication Standard); and
- **SWIFT** (with multiple flavours of SWIFT to offer flexibility in cost).

In addition to offering connectivity, technology partners (such as a TMS vendor) should also provide the management, on-boarding and monitoring of those connections so that the treasury team need not worry about 'how' connectivity happens. Most treasurers would prefer their team's responsibilities are limited to simply asking the provider to connect to their banks.

**Cash (and liquidity) positioning**

Once bank reporting is aggregated in a single view, it is necessary to categorise banking information to reconcile actual data versus expected transactions. This positioning exercise is needed to confirm the accuracy of today's statements so that the daily cash surplus and shortfalls can be identified. Categorisation should be completely automated to align expected cash with reported cash. And, once confirmed, proactive investing and borrowing should be undertaken to optimise cash – ideally with only the right click of a mouse or, better yet, automated rules to fund accounts or sweep excesses away.

Many organisations will also manage liquidity at the same time, which means that cash equivalents, such as money market investments and on-demand borrowing capacity, are included in the reporting of the technology system. The alternative is to view multiple screens and reports, which is clearly inefficient.

**Cash forecasting**

Forecasting is often more of an art than science. The 'artistic' part is determining what information you want and how to make decisions from it. The extent to which treasury can rely on this information will vary by industry, and from business to business. There are simple rules that any treasury team can follow, however, to ensure their processes are best practice and their forecasting is accurate:

- **Collaborate** – the right people need to be involved in the process. In many cases, the right people do not report to treasury, so cooperation across teams is critical.
- **Consolidate** – the right data sources need to be included within the forecast. Sources vary by profile of company, but invariably some integration is required – again, requiring cooperation with other teams.
- **Measure** – the final component is to assess the accuracy of the forecast. In order to make the forecasting process meaningful, treasury should measure how accurate the forecast is against actual results, and it should feed the results back to the appropriate sources and individuals so that inputs can be refined going forward.


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