On the money

Executive summary

- The findings of the JPMorgan Asset Management global cash management survey 2009, conducted in association with the ACT and with support from the European Association of Corporate Treasurers (EACT), were discussed by a panel of treasurers. The panel considered the survey's immediate findings and some of the changes in cash and liquidity over the past 10 years that the JPMorgan survey has been running. JPMorgan would like to thank the panellists for their contribution.

A theme that was apparent in the survey results given the turmoil in the credit markets was a concern over credit risk and thus a heightened aversion to risk. Within the treasurer panel this theme came to the fore as well and to an extent seemed to be influencing other behaviours and concerns. However, as with many treasury management decisions, the ways in which companies react depend heavily on their own specific circumstances.

BANKING RELATIONSHIPS Until 2007 the trend was for companies to reduce the number of banks they used, but last year this trend went into reverse. Having fewer bank relationships certainly makes for easier administration and management and helps to foster better relationships with core banks, which makes sense in the current climate of banks retrenching and shrinking their business. But if finding a bank prepared to do business is more difficult now, or if there are concerns over the ability of a company's banks to perform, then treasurers will need to keep in with a larger set of banks.

The panel agreed with the survey findings and had opted to spread their own business a little further to keep more contacts happy, which addressed the worry around bank consolidation. Having spare banks – or in one case even splitting the clearing banking – provided an insurance policy. In the case of the clearing split, if one of the bank's capability or willingness to perform declined, then transferring services, although not easy, would at least be to a known provider.

For one treasurer the credit risk from the banking sector had driven him to greatly increase the number of banks with which he had deposits in order to benefit from diversification. He had introduced a limit per bank of £10m, not because £10m was precisely calculated from a value at risk and default probability but rather as a simple artifice to ensure that cash was held with a spread of banks.

The panel debated the merits of a higher risk of losing a small amount versus concentrating investments with a few very high-quality banks and running a low risk of a large loss. The jury is still out.

BANK SELECTION CRITERIA The survey confirmed that the quality of relationship management and customer service still beats the provision of credit facilities. For our panel one separate element of customer service was highlighted: namely, the driver of first-class technology. Internet information was seen as invaluable.

"The speed with which Lehman went down means that we need real-time information where possible," said one treasurer.

Certainly this is the direction the banks are generally moving but there is still a lot further they could go. For one company a huge benefit from up-to-date information and minimising admin and filing is because "our auditors are happy to accept online statements, although this is clearly not universal".

USE OF ONLINE PORTALS The use of online portals for cash management activities has gone up significantly this year but for other services such as foreign exchange (FX) has gone down. This may be because of a higher proportion of respondents from the US in the latest survey, but our panel's experiences were that online FX dealing systems have not worked properly in the volatile markets of the past 18 months and that there was a benefit from reverting to telephone dealing especially for larger deals where rates were definitely better than dealing direct, even when compared to using the same bank's portal.

AREAS OF IMPORTANCE The treasurer panel's views differed significantly here from the results of the survey. By definition, the

PETER MATZA REPORTS FROM A ROUNDTABLE DISCUSSING THE FINDINGS OF THE JPMORGAN ASSET MANAGEMENT GLOBAL CASH MANAGEMENT SURVEY.

survey concentrates on cash management and closely related elements of treasury and deliberately does not encompass treasury management in its widest definitions. But for our panel of treasurers, reflecting the post-Lehman financial world, raising finance had to be the area of most importance. Although more labour-days of effort would be directed to cash management, our panel saw the more strategic issue as risk, in particular credit risk.

"In our group, credit risk is mainly seen as a business issue, so it is difficult for treasury to add value for far distant countries," said one panel member. For another treasury could play a valuable role: "Different businesses very often will be dealing with the same counterparty, therefore overall credit risk control must be centralised." Treasury was seen more and more to be a good source of overall business information since it is close to the cashflow process.

CRITERIA FOR INVESTING CASH The survey results showed that almost 40% of treasurers only monitored ratings levels quarterly or even annually. Our panel found this remarkable. Were the survey to be repeated today, they thought the frequency of checking ratings would have increased – and recommended that it should do so. Our treasurers were also now looking at credit default swap (CDS) spreads as an early warning indicator of potential credit concerns. "We now try and look at a range of indicators," said one. Even companies that are net borrowers will need to monitor the credit standing of their debt providers.

POOLED INVESTMENTS /MONEY MARKET FUNDS The survey revealed that usage of pooled investments in North America was down a little on previous years but overall use of AAA money market funds (MMFs) had risen from 86% to 91%, although this may reflect the more dominant weighting of responses from the US this year. What was interesting was to see that, as in 2008, the use of MMFs is more widespread in larger companies. The convenience and diversification resulting from using MMFs are ideally suited to smaller companies, but our panel sensed that smaller companies might be put off by the perception that establishing a dealing relationship with a fund could be complicated. A further concern might be that funds could be investing in esoteric investments. Technically, this is valid, but in practice the AAA rating and monitoring by the agencies should give enough comfort that the stated investment polices will be applied.

TARGET RETURNS A significant proportion of investing companies are targeting returns of Libor-plus, even on straightforward bank deposits. The treasurer panel found this amazing and inconsistent with the trends revealed elsewhere towards concerns over risk and liquidity, although, of course, much will depend on how the targets are set and measured.

CASH CONCENTRATION The survey finding that zero-balancing cash concentration structures were the most popular was generally supported by the panel. Zero balancing was deemed theoretically a preferable solution and in today's environment minimised outstanding balances and hence credit exposures. It was felt that in the past zero balancing had left admin problems recording the transactions but that systems were much better nowadays.

OUTSOURCING The survey predicted an increase in outsourcing across a variety of categories of services. With the current pressures for efficiencies and headcount savings, this was to be expected, but the panel wondered if we had reached the stage where outsourced services might be brought back in-house. The status and respect for the activities of the treasury department has risen with the rise in importance of cash and liquidity and risk management, and on the back of this it might be that treasuries will be given extra responsibilities and resources.

The JPMorgan global cash management survey remains a benchmark for corporate treasurers and other cash investors to evaluate their liquidity management processes and understand their market position in relation to their peers. Over the 10 years of its history, the survey has highlighted changes in the attitudes and behaviour of treasurers through diverse market conditions. The panel discussion reiterated that 2008 responses reflected marked changes in the attitudes and expectations of treasurers, as turmoil in global credit markets and the developing banking crisis contributed to rising risk aversion. Treasurers will remain at the forefront of corporate responses to volatile economic circumstances.

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A full copy of the 10th annual survey can be found on the ACT website: www.treasurers.org/gcmsurvey

The members of the roundtable (which was co-hosted by Peter Matza and Martin O'Donovan of the ACT) were:

- **Charles Barlow**, Coats
- **Bert Heirbaut**, Intercontinental Hotels
- **David Munday**, RWE Npower
- **Julian Tasker**, Johnson Matthey