Managing money globally

DAVID MANSON AND RICHARD MARTIN DISCUSS THE LATEST CHALLENGES FOR CORPORATE TREASURERS IN MANAGING PAYMENTS ACTIVITY AND LIQUIDITY ON AN INTERNATIONAL SCALE. **PETER WILLIAMS** REPORTS.

Managing cash and liquidity across multiple locations remains a top priority for corporates, and one of its key elements is creating and maintaining the best banking relationship. The financial crisis caused a re-evaluation of many bank relationships. In the new world of greater regulation and heightened awareness of counterparty risk, corporates need to reassess how they meet their banking requirements.

Regional banking is a reality for an increasing number of corporates. Multinationals are asking different banks to work with them in different regions across the globe. The ability of one bank to supply a global solution seems an unlikely proposition, not to mention an undesirable strategy for treasurers from a risk management perspective.

And treasurers still have to draw a distinction between national and international banks. In some countries corporates need a good national provider to offer depth of service, because in many places – China, for example – the regulatory backdrop prevents a single bank providing all the services, or national coverage, a corporate needs.

"Corporates often buy on a regional basis when they have relatively centralised treasuries," says Richard Martin, head of payments and

cash management at Barclays Corporate, "but we are also seeing a trend towards a multi-domestic structure, with corporates looking for a best-in-class provider in countries where they need that." A retailer, for instance, may need an extensive direct debit capability, but that depth of service could be combined with an international bank, giving an overlay service that a strong domestic provider could not match.

THE KEY IS TO SECURE RETURN *OF* THE CAPITAL AS WELL AS RETURN *ON* THE CAPITAL

MANAGING MULTIPLE BANK RELATIONSHIPS A corporate often needs multiple banks and to some extent that means balancing competing forces: working with one bank brings consistency of service and pricing but also the risk of over concentration (the all eggs in one basket scenario). The trend towards appointing multiple banks on a regional basis is a reasonably balanced solution to that issue, giving coverage and depth of service and maintaining an appropriate breadth of relationship but not presenting the logistical difficulties of too many banking relationships.

And even the logistical problems are improving with increasing standardisation of banking platforms and technology. Increasingly, says David Manson, head of liquidity management at Barclays Corporate, banks like Barclays are flexible enough to adapt their systems to meet their clients. He says: "With physical and notional cash pooling, for example, we are increasingly asking corporates what they want to achieve and how they want to structure their banking. Today's products have the flexibility to be tailored to the needs of individual businesses but also use banking standards such as SWIFT."

Treasurers certainly know the problems of multiple log-ons for different banks, drawers of fobs and tokens, sometimes even different machines. Martin adds: "To a certain extent we have moved to ERP [enterprise resource planning] integration, being able to take, for instance, SAP IDoc formats, but at the same time this is one of the obvious intricacies of being multibanked."

This is where SWIFT Corporate Access could provide extra help, although in reality not for every treasurer. There are some issues – languages, time zones and local regulations, leading to multiple documentation – which neither bank nor corporates can totally avoid. "It is no longer just the transaction services that can be provided in any one country," says Martin, "but it is also a question of the credit availability."

The focus of Barclays Corporate very much remains on consistency of relationship, through not only industry-specific expertise and knowledge but also depth and length of relationship. Manson says: "What we are doing in the cash and trade space, in terms of building the product and the countries we are expanding into, is client-led. We look at the pattern of our clients' businesses and we look to respond accordingly."

The strength of the banking industry, individual countries and individual institutions has become a big part of the dialogue that Manson and Martin are having with corporates which want to utilise a multi-bank approach but are focusing this approach on a manageable number of strong and capable banking relationships.

MANAGING COUNTERPARTY RISK While in some ways the fundamentals of the bank/treasurer relationship haven't altered, the financial crisis has made a radical difference to issues such as counterparty risk, which remains high on the agenda and has to be managed on both a country and a regional level. For instance, Barclays knows of one client whose revised treasury policy on credit rating could be met by none of the local banks in one country, so the corporate needed a large, trusted and stable regional institution rather than a local country solution to fit its criteria. This is a remarkable transition from a few years ago.

So it's back to the three fundamental pillars of security, liquidity and yield. "Banks are being regarded as a trading counterparty that needs to be risk-assessed," says Martin. "Corporates have always done this with their normal trading parties, but maybe not done such an in-depth job with banks. We are seeing this happen now, with treasury policies being made stricter since the crisis."

Corporates would often like to concentrate their transaction business, but adopting a risk profile they are comfortable with means moving in the opposite direction. In practice, this means placing money with an increasing number of banks and countries to meet the caps they have set themselves. After all, some financial institutions now have lower credit ratings than their corporate clients.

And that poses a genuine problem for treasurers who have seen the number of strong counterparties shrink. The key is to secure return *of* the capital as well as return *on* the capital. The problem has become more acute as the recession has encouraged corporates to hang onto their cash.

The conversations between bankers and treasurers now resemble the conversations between bankers and regulators. "We are talking to treasurers about how we manage our liquidity – the level of reserves – and the stress tests we are undertaking," says Manson. The conversation includes how Barclays fared in the recent European stress tests, the results of which positively endorsed the bank's financial strength.

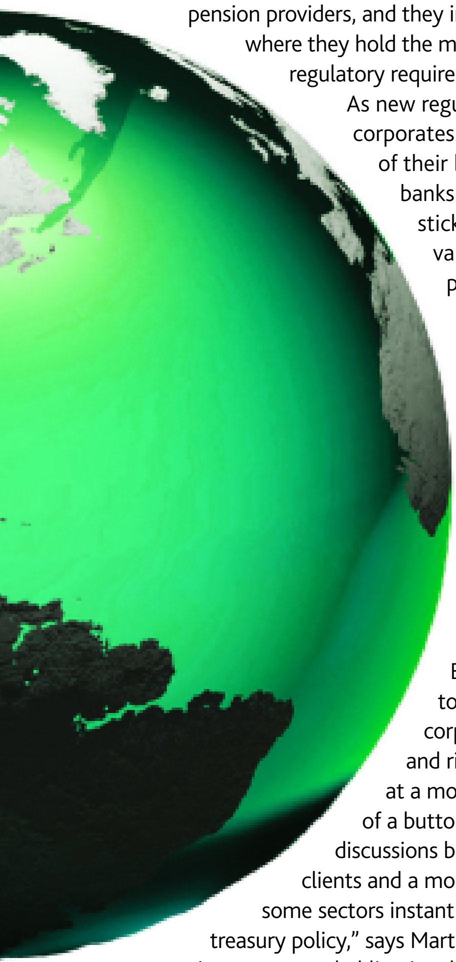
Martin says one client was offered four times the amount Barclays Corporate was willing to pay for instant access. "We sharpened it a little," he adds, "but in the end the client stayed with us, partly because of the relationship, but also because a question was raised as to why the other institution was offering such rates."

Against this background many treasurers are willing to be open and transparent with their banking group both about their thinking and the detailed counterparty limits. Barclays Corporate believes this trend will continue and welcomes it as a sensible and scientific approach by corporates, and sees willingness to discuss these matters as a sign of a strengthening relationship. However, Manson adds: "Deposit pricing today is less specifically rate-driven; rather, the proposition is a complex combination of yield, security, relationship and sovereign risk."

THE IMPACT OF CHANGING REGULATIONS There can be no doubt that the new regulatory environment coming into force after the financial crisis will dramatically change the landscape in the long term. Manson says that treasurers are more cautious about the returns and yields on offer in light of these changes: "With emerging regulation on banks such as liquidity buffers, we are increasingly being asked by large corporates and multinationals to help them understand the requirements being put on banks, how we and the industry are approaching them, and how they will change the market in the future. It is an important issue which will remain front of mind for another three to four years."

There is now a greater understanding of the relationship between risk and return, to such an extent that Martin says one client is asking for a direct conversation with the Barclays compliance team and possibly a site visit to the client to explain in more detail how the bank operates.

In the past treasury departments didn't move much beyond the thinking that lower-rated institutions and locations paid higher rates. But the thinking has now become much sharper, especially among institutions looking after client money, such as fund managers and pension providers, and they increasingly have to account for where they hold the money in addition to their own regulatory requirements for instant access.



As new regulations impact on their banks, corporates will increasingly learn the value of their balances and deposits to the banks. What is known colloquially as sticky money has a particularly high value. "If corporates know that a particular tranche of money will be stable for a period, they need to talk to their banks about it," advises Martin. He adds: "We can see that where in theory money could be moved out immediately but historically there is a long maturity profile and a stability across the portfolio as a whole, we are prepared to reward that."

FLEXIBILITY OF APPROACH

Balancing requirements for banks to hold stable liquidity with the corporate need to manage liquidity and risk with the ability to access funds at a moment's notice, literally at the push of a button, is leading to some interesting discussions between Barclays Corporate and its clients and a more sophisticated approach. "In some sectors instant access is a requirement of the treasury policy," says Martin. "However, although instance assess is a contractual obligation, half the time they are able to say the funds will be here and stable, so what rates can you give us?"

One of the ways Barclays has responded is by offering corporates flexible interest-bearing current accounts. As Manson explains, if clients can leave the money overnight and if those funds are there for 365 overnights, then Barclays will pay a bonus. These products have been created to reflect the difficulty that many corporates have in managing liquidity with any certainty. "We recognise that balances move around a lot," says Manson, "so we try to provide range-based products that give value for average balances. A corporate does not have to commit, for example, to a term deposit of a specific amount for a specific period, but if the balance remains between an expected range over a year, then that would attract a bonus." This significant innovation provides flexibility while rewarding loyal, behaviourally long-term clients with instant access.

Box: Low credit appetite

Treasurers and bankers know that credit facilities are there but the evidence suggests that many corporates are repaying debt and through more effective working capital management looking to internally generated funds or other sources of financing, such as asset-backed, as a first option rather than traditional lending. The facility is there but remains undrawn across all sectors of the corporate market. This situation reflects the nervousness felt by corporates over the last 18 months.

Martin outlines a similar proposition Barclays offers where the balance may also be linked to transaction charges. Here, a corporate can use a good nominal rate of interest on average balance to offset its banking fees.

CASH MANAGEMENT: OPERATIONAL VERSUS DISCRETIONARY

There is a move towards two cash management playing fields: one is operational or transactional cash, and the other is discretionary cash. Banks know that day-to-day working capital is likely to be around for some time whereas a corporate's discretionary cash has less value for the relationship bank and the market as a whole as it is likely to move at a moment's notice chasing the best rate. From the bank's perspective, each field has its own value.

While these products do relieve the pressure on the corporate treasurer to know the cash balance to the last penny, there is still a need to make sure that long-term cashflow forecasting is as accurate as possible and under constant review. Corporates need good visibility of, and access to, all of their cash balances, wherever they may be located. In this regard Barclays is seeing more corporates looking to use efficient cash pooling techniques to centralise operational cash on an automated basis to their key banking partners in the right locations, thereby optimising liquidity but also appropriately managing counterparty risk. Even though credit is available, corporates are aware that internally generated funds represent the best value and should be the first source to be exploited (see box).

Treasurers and bankers need to explore these issues both with each other and within their own organisations as the new funding and liquidity environment continues to take shape.

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