KEEPING THE WHEELS OILED

SYSTEMS In large multinationals keeping track of money has often been an inefficient process, but modern cashflow management technology makes it a whole lot easier, writes **Neasa MacErlean**

> Using the SWIFT system as a base, a corporate can now buy a specialist treasury work station system that can be tailored to their needs

■ Company X is a major multinational with well over 300 subsidiaries and small operating units spread around the world. But, because those units use different banks and bank accounts and have their own accounting systems, it has been impossible for Company X to get an accurate summary of total cash balances or to make reliable cash forecasts. Each week over 80 of the units would send their forecasts in to head office. This was the weekly maximum that the stretched central treasury team could deal with. By the end of the month, the chief treasury officer was able to make a stab at the group cash flow and forecast position. But he would not have liked to bet his car on its accuracy, and he began thinking about how to resolve these difficulties.

This is the somewhat chaotic and embarrassing situation that many organisations are in. While state-of-the-art technology is used to manufacture widgets, it has been a long time coming for international cash flow technology. In the UK only 100 groups are linked up to the SWIFT system (Society for Worldwide Interbank Financial Telecommunication) of corporate access, an increasingly important way of getting updated interrogation of a corporate's bank accounts when globally spread. So there will be thousands and thousands of multinationals which are in the same boat as Company X. For the two-branch fish and chip shop there is little problem but lack of information can be a serious handicap for the businesses spreading overseas.

It is not the corporates, however, who are really to blame. For many years banks feared that they could cannibalise their own main product lines if they handed over power on bank account access to other organisations. But progressive breakthroughs have been made over the last seven years. "The game-changer for treasury departments should be SWIFT corporate access," says consultant Bob Lyddon of Bob Lyddon & Associates. "That is the harmonised channel of communication to all banks. It really ought to work." Back in the mid-2000s, the banks leading SWIFT decided to opt for mutual co-operation in response to growing client demand. Most banks now permit corporate access through the SWIFT global communication and transactions schemes. Using the SWIFT system as a base, a corporate can now buy a specialist treasury work station system from one of the handful of IT suppliers in this market. This will typically take three to six months to set up; and, for example, will cost a minimum of about £43,000 at IT2, £50,000 for the average client from Salmon Software and upwards of £60,000 at SunGard, amongst others. "The need ran ahead of the technology for many years," says Adrian Rodgers of ARC Solutions. "But the technology is now catching up very effectively." Most systems are off-the-shelf packages but installation is complicated as communication routes have to be found to all the banks that a corporate deals with. Every corporate will have a different list of banks.

When one of these systems is installed, the corporate treasurer will be able to pull off a list of bank account balances around the world. He or she will be able, for instance, to plug that deficit in Italy by using the surplus in Germany. Before such systems were introduced, corporates were often borrowing externally to cover potential overdrafts because they could not find out in time where their positive cash balances were. "It makes an enormous difference," says John Byrne, managing director of Dublin-based Salmon Software, talking of the savings organisations can make. Many companies have 25 bank accounts in 25 different jurisdictions and can save themselves substantial sums by covering their own deficits in-house. With current banking technology it is easy to sweep up credits in bank accounts around the world and then to distribute them into other accounts that are in debit (depending on some local banking constraints).

The troubled economic climate is pushing the demand for such services and also increasing pressures on banks to respond. "The financial crisis has made a huge difference," says Arun Aggarwal, head of SWIFT in the UK, Ireland and Nordic region. "It pointed out to corporates that they could not be reliant on one bank. We are seeing a spread into multi-banking." As Aggarwal suggests, many corporates are building more relationships with banks as they experience a deterioration in some of the terms and conditions offered to them by the financial institutions. In September, the UK's Independent Commission on Banking is expected to call for banks to hold significantly more in capital, making it more expensive for them to lend. Terms and conditions could tighten up again then.

Difficult economic conditions also make forecasting more important. Forecasting is a function that sits on top of the basic system of collecting bank balances. "It's become more important to know what is coming in and out since 2008," says Bob Lyddon, referring to the start of the financial crisis and the increased incidence of default on debts. These packages enable treasurers to see, for example, what happens to cash flow if all debtors pay ten days late or if one in 15 of them never pays at all. Company X, in fact, decided that it needed to switch to instantaneous, reliable forecasting through a treasury work station package and the treasurer can now produce accurate daily updates in minutes. He can also check all bank balances around the world in a matter of seconds through the system which, like most such packages, connects into risk analysis functions and the management of the debt and investment portfolios. It also leaves the necessary audit trail.


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When your business is spread all over the world, a central system is vital to keep track of the money

Salmon Software, which regards itself as the cheapest of the main players ("because our pricing is based on what our costs are"), has a web-based forecasting facility built into its systems. So, a client's subsidiaries now all have to fill in the same forecasting *pro forma* wherever they are in the world, rather than – as happens with many groups – sending in a range of different formats, based on different definitions, to head office. SunGard believes that competition between different suppliers has moved on from the collection of bank balances to more sophisticated areas such as forecasting. "There's not a lot of difference in the basic functionality of the main programmes," says Scott Coffing, chief operating officer for SunGard's AvantGard corporate cash flow/forecasting product. He believes that SunGard is up "at the next level", having bought a specialist forecasting company which could help move forecasting up from 80 to 95 per cent levels of accuracy.

There are many signs that development in this overall area is speeding up. SWIFT launched two new products in late 2010: eBAM (for opening, closing and managing international bank accounts) and personal digital identity (which facilitates the signing-in procedures of corporate treasurers across all the group bank accounts). More banks are signing up to the SWIFT corporate access system; and banks in India and China can now be reached through these software packages. There is also a growing widespread trend for centralising treasury functions in corporates, the first step towards using centralised cash management software.

SWIFT now has 800 corporates worldwide signed up to its corporate access facility. It expects this to grow to 1,000 by the end of 2011 and to 5,000 "in a few years". While that does represent significant growth, it is from a low base. Comparable numbers are difficult to come by but in the UK there are about 2 million companies registered with Companies House. Although SWIFT's 100 group clients in the UK may represent 1,000 or more outlets, it is clear that only a small proportion of UK companies have bought into the latest corporate treasury technology.

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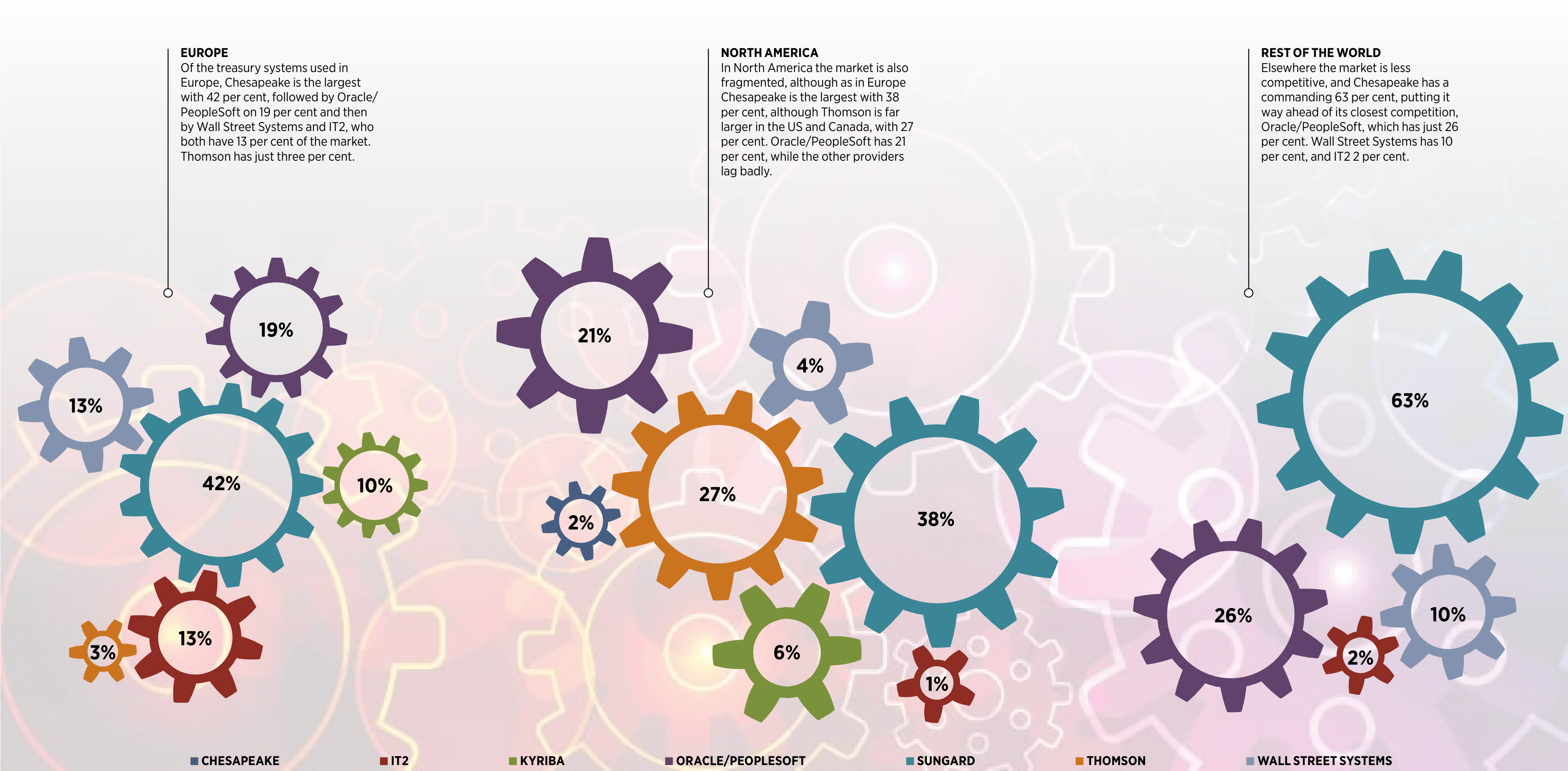

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