Use the catalyst

ACHIEVING GREATER CONTROL, VISIBILITY AND EFFICIENCY THROUGH CENTRALISATION AND RATIONALISATION IS A CASH MANAGEMENT IMPERATIVE, AS **ANDY PONSFORD** EXPLAINS.

For many treasurers, centralisation and rationalisation are emerging as effective strategies to optimise visibility and control over a company's cash resources. As the search for optimal process efficiency persists, the theme of rationalisation becomes evident with treasurers looking to consolidate cash management partners, tools and other enablers. In this article, we look more closely at the driving forces behind these trends and how certain industry factors are providing a strong tail wind to help treasurers achieve their aim.

SEPA DRIVES THE CENTRALISATION OF PAYABLES AND RECEIVABLES Treasurers are now recognising the potential benefits of the SEPA (Single Euro Payments Area) credit transfer more clearly: a single payment experience for users across multiple countries, with standard payment formats and common execution timeframes among the advances.

Recently, we witnessed the launch of SEPA direct debit (SDD), which lends itself very effectively to the centralisation of corporates' receivables processes. Some question marks still remain about the initiative, such as the reach of SDD and the validity of existing domestic direct debit mandates.

The reach issue will be addressed by new regulation set to arrive in November 2010, which will make it mandatory for all banks within the euro zone to be reachable via SDD. This regulation effectively sets a start date for SEPA and seems to be incentivising the migration of large corporates from multiple domestic schemes to a single pan-regional alternative for handling payables and receivables.

OPTIMISING PAYABLES PROCESSES SEPA brings significant opportunities for centralisation. As the need to manage local clearing cycles and the support for local payment methods disappear over time, so companies can implement standard processes and formats, making it easier to centralise payments into a payments factory or shared service centre (SSC). Centralisation will enable companies to leverage resident payment expertise, create a single payment hub and achieve general economies of scale as payments for multiple domiciles are consolidated to one location. Finally, centralisation presents treasury with an opportunity to consolidate the number of payment providers used.

The centralisation of payments is typically undertaken before other transactional activities such as collections, simply because companies tend to have greater control over outbound payment traffic whereas receivables tend to be initiated by a third party, and so are less predictable.

A key part of centralising payments in the new SEPA environment is to select a pan-European payments bank. Treasurers should consider carefully which of the leading payment providers are thoroughly committed to the payments industry and which among those will continue to invest in initiatives like SEPA.

AS THE SEARCH FOR OPTIMAL PROCESS EFFICIENCY PERSISTS, THE THEME OF RATIONALISATION BECOMES EVIDENT WITH TREASURERS LOOKING TO CONSOLIDATE CASH MANAGEMENT PARTNERS, TOOLS AND OTHER ENABLERS.

ENHANCING RECEIVABLES PROCESSES Receivables efficiency has traditionally been challenged by the payment instrument diversity exhibited from country to country and by the distribution of the collections function across a range of sales channels. Internal corporate resistance to the centralisation of receivables collection has often diminished as senior managers seek to optimise working capital. By rationalising receivables methods, SEPA enables operational excellence and permits greater visibility and control over day sales outstanding (DSO). With a 140-character remittance information field on each transaction, the reconciliation process can become fully automated, minimising manual intervention and limiting the losses that can arise.

Under the SEPA direct debit business-to-business scheme, authorised debits are irrevocable, providing creditors with certainty in their cash position and the ability to free up customer credit lines immediately. We believe that the SDD scheme brings with it the potential for companies to adopt new business strategies as it becomes far easier to deliver time-sensitive products and services without running the risk of non-payment.

BANK ACCOUNT CONSOLIDATION A question we are asked frequently is whether SEPA will enable multinational companies that might have multiple accounts and banking relationships today to reduce their accounts to a single bank account with a single provider.

It is certainly the case that SEPA will enable treasurers to rationalise their accounts and banking partners considerably, and many companies are choosing to work with a single pan-European payments provider. Although it should be possible to reduce to one account once SEPA is fully implemented, there are good reasons why a company may wish to retain more than one euro account; for example, so it can make local tax payments.

What is clear is that treasurers require a clear line of sight to cash balances and overall liquidity positions, ideally on a real-time basis. If a company operates hundreds and sometimes thousands of accounts, then visibility of cash can only be more of a challenge. By consolidating the number of corporate accounts and banks, the treasurer can achieve greater visibility as the number of electronic portals reduces, thereby improving control over liquidity.

MANAGING ACCOUNTS Assuming that corporate treasurers will elect to retain a manageable number of accounts to keep diverse cashflows segregated as appropriate, the familiar routine of opening and closing accounts and updating authorisations remains a challenge.

As treasuries centralise, though, the industry is developing a solution to ease this burden.

Electronic bank account management (eBAM) enables online account maintenance and signatory control. For shared service centres the benefits of this project (which are being realised jointly between banks, vendors and corporate customers) are significant. At J.P. Morgan we expect to see eBAM evolve in functionality and usability, quickly empowering corporate SSCs, reducing administration and enhancing control.

BY SIMPLIFYING CASH MANAGEMENT AT A PAN-EUROPEAN LEVEL, TREASURERS CAN EXPAND THEIR FOCUS FROM A REGIONAL TO A GLOBAL PERSPECTIVE AND MORE EASILY LEVERAGE OPPORTUNITIES.

TECHNOLOGY AND COMMUNICATION The tools of modern treasury, such as enterprise resource planning systems (ERP) and treasury management systems (TMS) are prevalent among large corporates. Both ERP and TMS are global in their application and many implementations are capable of direct interface with bank payment initiation and reporting systems.

To build a separate interface for each bank relationship is a task that would negate many of the benefits of centralisation. Enter SWIFT. The great proliferation of proprietary bank platforms was a major influencing factor in SWIFT's development of the Standardised Corporate Environment (SCORE). SCORE enables corporates to communicate with multiple bank partners using SWIFT's own industry standards. Once again it corresponds neatly with the theme of single uniform processes and formats for use in a standardised, centralised treasury function.

CATALYSTS FOR CHANGE SEPA is clearly a catalyst for enhancing and standardising key cash management processes and structures together with bank communication, relationships and accounts. By simplifying cash management at a pan-European level, treasurers can expand their focus from a regional to a global perspective and more easily leverage opportunities such as eBAM and bank-independent connectivity through SWIFTNet. These initiatives bring significant potential for corporate treasurers to enhance efficiency, visibility and control over financial operations when working with a banking partner.

At J.P. Morgan, we understand the importance of supporting our corporate customers' evolving banking needs. We remain convinced and excited about the direct benefits that SEPA and other industry initiatives can bring to achieve greater visibility, control and efficiency across the entire payments continuum.

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