Cash management in the US – a special challenge

The challenge for both corporations and providers, says Chase's Anne-Marie Ely, is to keep up with technology, changing regulations, and Year 2000.

With 50 states, 12 Federal Reserve Districts and 10,000 banking institutions (number changing almost daily) the US presents a challenge to the cash manager.

A changing regulatory environment, new technology and mergers that expand the scope of traditional banking are redefining the traditional treasury management paradigm for both banks and corporations. With an open market economy, US residents may maintain accounts in other countries (subject to the host country's regulations) and non-residents may hold accounts in the US (a taxpayer ID number and relationship with a bank is needed). As a result, US treasurers often find themselves managing cash across geographies and time zones.

To be a major player in this market place, a bank needs to have a strong commitment of resources and an appetite for development.

The major banks for the US in cash management include Chase Manhattan, Citibank, and Bank of America/Nationsbank. In addition there are numerous regional banks that provide services, such as First Chicago, Wells Fargo, First Union and Mellon Bank. These banks spend hundreds of millions each year to maintain their competitive edge and bring new products and services to the market. The current trend in product development is to offer outsourcing and expanded use of the internet for bill presentment and payment and banking services.

In the US, transaction types run the gamut from the classic paper cheque to the latest internet-initiated electronic payment. Corporations initiate and receive paper-based transactions, as well as high-value and low-value electronic transactions on a daily basis. In addition, treasury managers require complete information on all their activities, as they occur. New services have added options but have not eliminated or fully replaced the older, traditional services.

Treasurers seek partnerships

The treasurer today is working with a reduced staff, while responsibilities are growing. Treasury needs to take advantage of automation to function, and is responsible for keeping fees low and return on account balances high.

Fee structures for cash management services in the US vary from bank to bank and also from customer to customer. Many banks base their pricing upon the overall relationship, especially for multiple product solutions. As US banks become more consultative and total-solution oriented rather than product driven, pricing will become even more customised.

Some corporate treasurers are incentivised on the amount that they save on banking fees and the level of efficiency in their departments. Treasurers are looking for true partnership banks to build systems that will take them into the next millennium.

After they have negotiated the best possible price, treasurers then focus on the return on excess balances. No longer are they content to leave large balances in return for no fees charged. While banks in the US are prohibited from paying interest on business DDAs, overnight sweeps to offshore time deposits, commercial paper or repos are often used to compensate customers for maintaining excess balances. This technique is useful to the treasurer in the daily cash positioning, as all funds will be utilised for cash needs, to pay for services or to earn interest.


Anne-Marie Ely

The US banking system is both paper and electronic, similar in function to European countries. Treasurers must manage both types of transactions, in a timely and efficient manner. Cheques deposited are cleared through local clearing houses, direct sends between banks, or the Federal Reserve system. Float on these items can vary from one to five days, depending upon bank operations, location and the relationship to the customer.

Cheques are deposited through the bank branch system, or may be received via a lockbox. A lockbox is a unique Post Office box number assigned to the corporation by the bank. On a daily basis, the bank picks up the mail, processes it, and deposits the cheques to the customer's account, returning remittance information either by mail or electronically.

Corporations generally issue cheques drawn on controlled disbursement accounts, enabling the treasurer to receive an early funding total for the day, making cash positioning more accurate. In addition to the treasury benefit, use of controlled disbursement enables the corporation to take advantage of fraud prevention services such as Positive Pay. With Positive Pay, a corporation will pre-advise the bank of all issued cheques, and any presented items that do not have a match are referred and may be returned in a timely manner. The proliferation of desktop publishing has increased cheque fraud and both customers and the banks are actively seeking methods to detect and reject fraudulent items.

Corporations are actively pursuing the use of electronic transfers to settle transactions. The use of EDI for ordering and invoicing should ultimately lead to payment via either wires for same day sensitive payments or ACH for next-day payments. The use of electronic deposits for payroll, pensions and reimbursements has grown exponentially, with consumers being more willing to embrace the new technology. Corporations may need to use more favorable credit terms and/or discounts and provide multiple methods of remittance information delivery to make electronic payments a reality.

Workstations: the ideal employee

Information on banking and transaction activities is critical to the treasury function. Cash positioning is impacted by timely, accurate reporting, and often the treasury department is also responsible for feeds of information to update the general ledger, accounts receivable and accounts payable systems.

Many corporations are utilising treasury workstations, PC-based systems that automatically download bank information, and then enable the user to manipulate files, access reports and export data files to other systems in the corporations.

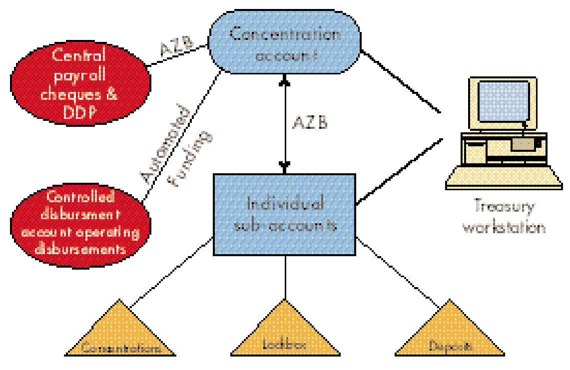
Treasury workstations are available through some of the major cash management banks (eg, Chase Manhattan offers Insight, a Windows-based treasury workstation) or through vendors (eg, XRT, ICMS). These same treasury workstations also provide transaction-initiation capabilities and decision-support tools. Working at their best, they are an invaluable employee, as they rarely get ill and never take a holiday.

Looking forward, there are several exciting new opportunities for both user and provider in the cash management arena. Imaging and outsourcing will be key for cash management over the next years.

Imaging has been offered for several years now, but more and more corporations are actively pursuing this technology. Imaging in cash management began with images of cheques being used in place of the return of actual paid cheques. It has expanded to become an invaluable tool in combating cheque fraud, as suspicious items can be image-transmitted to customers for review and a pay-or-return decision. Images of remittance documents can be sent to lockbox customers to facilitate and speed the posting of transactions.

FIGURE 1

Sample cash management account structure for a US corporation



Customers are looking to their service providers to offer alternatives for image archiving and access. The ease of use and the reduction in storage expense makes imaging an attractive alternative.

Outsourcing becomes a priority

As corporations look at the way they do business, many are focusing on their core competencies and looking for ways to outsource required functions that can be done more efficiently and economically by other organisations.

High on the list of things that can be performed outside of the corporation are some treasury activities, notably payments and receivables.

Corporations are looking to outsource these activities to reduce expenses (and banks are looking to insource these activities to increase revenues).

As a first step to outsource, most corporations start with the payables function and transmit a payment file that includes cheque, wire and ACH transactions to their bank. The bank routes the payments as needed, including printing and mailing cheques. The corporation eliminates the printing and mailing function in-house, replacing it with a less expensive, timely and efficient alternative. The next generation will have corporations transmitting their accounts payable file to the payments processor for management and initiation in the most timely and cost-effective manner.

Receivables outsourcing may start with the use of lockbox services and expand to the transmission of a detailed file for updating accounts receivable automatically. In the next generation, the corporation will outsource the entire billing and collection process, including the printing and mailing of invoices, follow-up and reports to the corporation's credit group. This form of outsourcing requires a high degree of coordination between the corporation and the outsourcing partner.

Once the corporations get the paper out of their offices, the next step is to eliminate the paper altogether. Use of the internet is increasing daily, with applications for electronic bill presentment and payment being offered by vendors and some banks. Company websites will be used for information, ordering, invoicing and payment initiation. In addition, purchasing programs via PC with access to on-line catalogues with built in payment methods will greatly streamline the purchasing process, moving into the 21st century.

Cash management in the US is constantly changing to meet the needs of the corporate treasurer, take advantage of new technology and support customers as they move into new markets. The challenge for both corporation and provider is to keep up with developments, technology, changing regulations and the looming Year 2000 and fitting these in with normal business. The key to success will be active partnerships between corporations and their providers, as no one will be able to keep up with all developments on their own. ■

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