Every drop counts

LIQUIDITY MANAGEMENT REMAINS RIGHT AT THE TOP OF MANY CORPORATE TREASURERS' DAILY CONCERNS IN LIGHT OF THE CONTINUED CHALLENGING ECONOMIC BACKDROP AND INCREASING REGULATORY HEADWINDS. **MICHIEL RANKE** EXPLAINS HOW TO ENSURE THAT CASH IS AVAILABLE WHEN IT IS NEEDED, WHERE IT IS NEEDED.

Corporate treasurers are constantly searching for ways to improve the effectiveness and extend the scope of their liquidity management structures to obtain access to as wide a pool of corporate cash as possible. Now more than ever, how liquidity is gathered and where it is invested is a top board-level concern – not least because of the important counterparty risks it creates. Account structures that treasurers may have previously overlooked have come into focus as corporates search all areas of their business for cash that could be worked harder.

At the same time, the approach to cash investment optimisation has also risen up the corporate agenda. In the current environment, corporates have a strong conviction that they should keep any investments they take on board very short term while also complying with investment policies including credit rating, duration risk as well as instrument risk. Equally, treasurers are acutely aware of the requirement for return on their cash and are looking for flexible products that meet the liquidity requirement but recognise the actual tenor of cash.

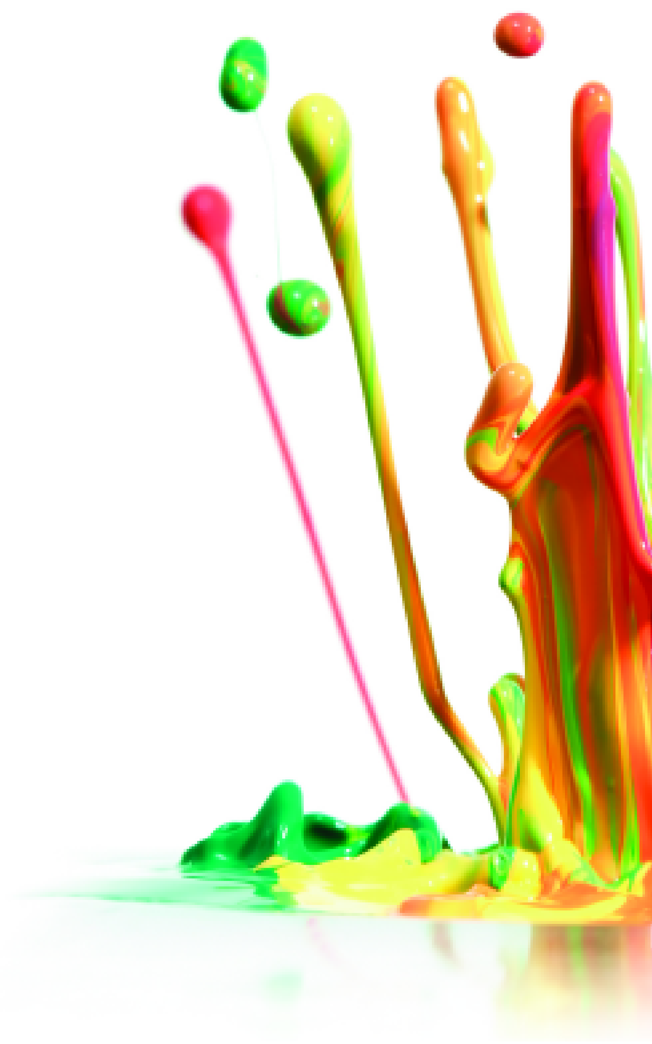
VISIBILITY IS KEY; CONTROL IS ESSENTIAL Greater visibility and transparency – and the need for sight of an overarching cash position – are undoubtedly important goals for most treasurers. However, while it is necessary to know where cash is, visibility in itself does not help to improve efficiency. As a result of the 2008 financial crisis, corporates have been looking for opportunities to improve their financial and operational efficiencies and obtain tighter control of their cash resources.

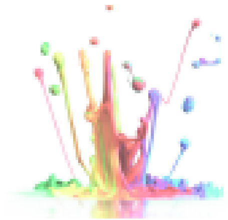
One area where control of cash is vital is self-funding. The credit crunch left a lasting impression on corporate treasurers regarding the cost and availability of capital. Appetite for credit remains low, and credit is more expensive than before the crisis. That situation is expected to be exacerbated by forthcoming regulations including Basel III, which will also have an effect on the corporate environment.

The imposition of Basel III will impact both sides of a bank's balance sheet. For lending there will be an incentive to derisk the balance sheet. Consequently, it is in the interests of all companies to look at all available options to improve their ability to self-fund – there is no cheaper source of capital. Only by effective control of cash can treasurers achieve their self-funding objectives.

SAFETY FIRST – INVESTMENTS Once cash has been concentrated – and assuming it is not needed for operations – corporates have the opportunity to maximise the efficiency of their investments. Unlike a few years ago, where the key investment driver for many treasurers was the yield that they could obtain from investing excess cash, the main focus now is sustainable operational resilience – ie. ensuring that they have a sustainable and robust business model.

Given the still uncertain times ahead, one of the pressing concerns of corporate treasurers is to what degree they can adopt strategies to ensure that their businesses can continue





to operate effectively, regardless of the state of the financial markets. This issue can have a significant impact on all aspects of a company's treasury policy, including investment. It is not surprising then, that while returns are still a priority, safety is key, with liquidity a close second.

SIMPLIFYING COMPLEXITY The simplicity of products is an additional factor treasurers are paying closer attention to when looking at their treasury investments. This consideration is closely linked to safety and liquidity. Given that it was the lack of simplicity which was at the centre of the credit crunch, corporate treasurers are loath to invest in such sophisticated products as derivatives. Instead, products must be simple enough for the finance director and other board members to understand – quickly – so that the company can be fully cognisant of its risks.

RBS appreciates the need to simplify complexity for finance directors and treasurers when new and innovative solutions are introduced. Visibility and control remain of utmost importance if we really want to add value for clients.

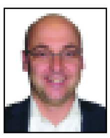
At the same time, convenience and automation are increasingly important for treasurers. While it is not regarded as a key investment criterion in the same way as safety and liquidity are, the ability to set investment parameters in advance and then automate the investment process is a necessary requirement for many treasury operations, which – considering their dramatically expanded role in recent years – are often understaffed.

NEW-STYLE INVESTMENTS As a result of the changes in corporate attitudes to investment, there is a renewed focus on deposit-style products. The introduction of Basel III will reinforce this and is likely to have a major impact on banks' appetite for certain types of deposits. There will be increased competition for more stable deposits, such as those balances associated with the provision of transaction banking services or retail deposits, as well as a differentiation between the treatment of corporate and financial institution deposits.

LIQUIDITY SOLUTIONS TO MEET TREASURERS' NEEDS
To meet the increased demands placed on corporate treasurers, RBS has enhanced the capabilities of its existing channels by adding the Liquidity Solutions Portal (LSP). The portal provides an easy and accessible way to manage liquidity and investments. It gives clients a full overview of all their current and investment accounts, including current account balances, investment services such as the new flexible Yield Call Demand Account (YCDA) and Growth Deposit Account (GDA), as well as access to the MoneyMarket Investor, which allows customers to trade online across a diversified pool of money market funds, including RBS Global Treasury Funds. The portal enables clients to change any of their liquidity management parameters; for example, sweeping from a particular account could be postponed for a single day if required.

THE FUTURE FOR CORPORATE CLIENTS Operating in some of the world's fastest-growing economies is increasingly important to many developed world companies, both from a growth and revenue perspective. However, many markets have unique challenges that require local knowledge from their banks if companies are not to encounter problems – especially in liquidity management. Banks must be on hand to offer advice proactively about how corporates can achieve their strategic goals. In particular, banks need to put their on-the-ground knowledge to work so companies can access the information they need as they expand in those countries.

In a challenging funding environment, it is well worth revisiting liquidity management structures to ensure day-to-day operational cash is available where it is needed, when it is needed. Through regular and open discussion, flexibility and innovation, banks can help their clients to unlock and redeploy cash trapped in the business as well as providing solutions to match their external short-term funding needs.



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