Fingertip funding

BANKS USED TO CONFIGURE PRODUCTS FOR THE WAY THEY WERE ORGANISED. NOW COMPANIES WANT SERVICES DEVISED FOR THE WAY THEY WORK, SAYS **JOHN SALTER**, WITH REAL-TIME CONTROL OF THEIR FUNDS AT THEIR FINGERTIPS.

In today's turbulent environment, we've all heard those defensive tales of corporate cash hoarding. But having it is one thing; the real point is putting it to work. "Sweat every cent" is a familiar mantra and truer now than ever. And that's exactly why working capital optimisation resonates so strongly with treasurers today.

This isn't at all surprising. The relative optimism treasurers felt this time last year has steadily evaporated in the face of growing political and economic uncertainty about sovereign debt. A core concern unquestionably is the impact of a euro zone crisis that is inevitably undermining growth and recovery prospects. The recent Deloitte CFO survey clearly shows how sharply focused corporate treasuries now are on cutting costs and increasing cashflow.

Cash visibility and accessibility are now the operational imperatives of the companies I'm working with. "If you can't see the cash," I keep being told, "you might as well not have it." What they want from their banking partners above all is robust, reliable systems to enhance their management of payables, receivables and liquidity, and ways of maximising process automation to reduce costs.

Of course, it's not just a question of "seeing the cash". The key issue is consolidating cash. Centralisation is one of the important trends we're seeing as more businesses de-gear. Companies increasingly want real-time access to their balances, whether their funds are generated locally or abroad.

Technology has made this drive to centralise funds so much more viable. Where previously you'd have needed to maintain in-country bank accounts to make payments abroad, we're now repatriating funds and initiating foreign payments for our clients from the UK.

And here, despite those immediate euro zone worries, there is simply no question that the development of the Single Euro Payments Area (SEPA) has had – and is continuing to have – a huge beneficial impact on the cash management of companies trading (or planning to) with SEPA's 32 member countries.

Many clients are using SEPA as an opportunity to lift the lid on their current cash management processes and structures and to leverage the advantages of the advances in technology. With the confirmation of SEPA's full implementation dates now in sight, we'll see a further widening of cost-saving opportunities for mid-sized corporates in what is already an important story.

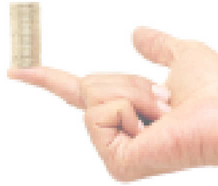
E-invoicing, arguably the most exciting bit, will maximise the potential for economies in the management of payables across SEPA-based supply chains, and will create a true 360-degree automation. For receivables management, too, SEPA's direct debit facility is a hugely powerful pan-European solution. Treasuries of UK-based corporates operating in any of the SEPA countries no longer need to have accounts in those countries. Companies participating through our banking system are already enjoying the benefits of greater control and certainty for cashflow planning and lower costs.

The winners, in my view, will be the innovators and the early adopters of SEPA. I'm very optimistic about its values. The cross-border payments zone is revolutionary and could bring a lot of benefits to a lot of businesses.

But, whether it's with SEPA mechanisms or other tools, what's important for treasurers is that all of the products available for working capital optimisation are supported by a clear standalone business case. And that's got to come back to saving hard dollars somewhere, optimising interest or reducing some risk or exposure.

At Lloyds, our Host2Host service provides greater control and cost reduction through automating payables management. It streamlines existing processes and enables harmonisation and integration of legacy systems. It's one result of our intensive work to establish electronic platforms that meet clients' need for capital optimisation. It offers up-to-the-minute access to information and real-time capability, so companies can manage gaps or put surplus funds to work.

It used to be the case, for instance, that end-of-day reconciliation was the norm. But globalisation and the drive for greater control mean an intra-day capability is now crucial. Systems users expect more, and they're right to: clients want simple, accessible formats to interact with their bank in real time.



Banks used to sell products configured according to the way each bank was organised. Now we're delivering services designed for the way our customers work. We put control of their funds at their fingertips. That not only facilitates their own decision-making, it also makes it easier for us to understand their short- and long-term strategic aims.

We're able to bring to bear our own wide experience across sectors and businesses, and to use some fairly detailed and complex modelling tools to help them achieve their goals. In this, we're responding to the demands of treasurers themselves for future-proofing by empowering them to make informed decisions.

We all know the opportunity cost, for example, of holding cash in a low interest environment: the value consideration decreases, but the risk consideration rises. We've worked with a number of major corporates to enhance their model by tying in cash to better returns, while simultaneously making funds liquid enough to roll off when needed.

These flexibilities are important at a time when treasurers are increasingly being held to account for maximising fund use and minimising costs. That's going to remain the case. The last few years have made people realise how much cash really is king, and the corporate treasury is now the financial nerve centre. It has moved from information to intelligence, playing an increasingly strong advisory role within businesses.

And that, in turn, mirrors the growing consultancy role of banks themselves. Our client treasurers are looking to us more and more for help in navigating the regulatory minefield and in accessing expert intelligence on markets, sectors and economic trends.

There's a growing sophistication in today's treasury demand for accessible and robust automated cash management systems as well as for market advice and business intelligence. In parallel with that demand is an equally strong drive for simplification and transparency. The assessment of counterparty risk is probably the number one issue here, which means stability, reliability and trust become the critical criteria in corporates' banking relationships.

In today's trying conditions, our joint aim must be to streamline control systems and enhance efficiency. Right now, much of any treasury's focus can't help being internal – using the department's own capabilities and experience and that of its banking partners to access innovative solutions to sweat the cash.

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