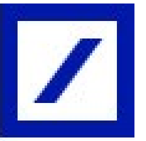

TreasuryPulse

Maximizing Opportunities in the New Normal

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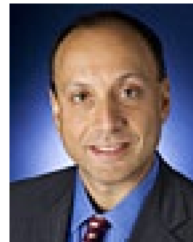

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As the volatility following the 2008 financial crisis recedes, the "new normal" has become the catch-all term describing the current set of treasury challenges, ranging from credit constraints and low interest rates to the hurdles presented by the growing importance of emerging economies — in terms of accurately assessing risk and managing a wider spread of currencies. In the new normal, there is continued market uncertainty from new and changing regulations.

With compliance measures tightening for banks and pressure increasing to implement further measures, corporates are becoming concerned about the effects on liquidity management. Such concerns are justified, particularly with respect to the Basel III capital adequacy regime.

While the overriding aims of Basel III are laudable, there is a danger they may be undermined by unintended or unanticipated consequences. For example, in stipulating that banks shrink balance sheets and hold longer-term deposits, there is a chance that shorter-term balances and/or those that fail to be classified as "operational cash" under the liquidity coverage ratio may become less attractive to some banks. As a result, corporates need to re-think investment strategies. Access to credit may also become more difficult and expensive, an issue for corporates to consider in terms of their own needs and those of their supply chain trading partners (many of which may be smaller companies where the issues are more acute).

Such heightened complexity is expanding the role and remit of the treasury function.

The Treasury Function:
From Operations to Strategy

As cash management and financial supply chains become increasingly intricate and involve specialist processes, the role of corporate treasurer has matured into a strategic function, rather than a purely operational one. Part of the new normal involves treasurers having input in decision-making both at the board level and across multiple departments such as Information Technology and Procurement. In providing that input, they can help redevelop liquidity, working capital and risk management practices to more effectively realize their organizations' wider goals.

Of course, maximizing cash and minimizing risk have always been the treasurer's responsibility, and many related concerns, such as gaining global oversight of cash positions, are perennial. These factors, however, are now being considered in a new light. For example, efforts to improve overall cash visibility are now as much a question of fund optimization (to decrease dependency on debt) as managing operational risk.

In addition, enhanced transparency of cash flows can help reconcile the common corporate dilemma of surplus funds earning little interest in one location while creating high overdraft charges in another — with the eradication of such discrepancies better enabling companies to self-fund operations.

Concerns over the stability of key suppliers are sparking greater interest in financial supply chain (FSC) solutions. When correctly designed and implemented, FSC solutions can improve automation and optimize working capital throughout the end-to-end supply chain. For large companies, FSC solutions have proven to be a valuable way to improve either Days Payable Outstanding (DPO) or Days Sales Outstanding (DSO) metrics, and hence generate significant free cash flow (that can be used to pay down debt or for capital expenditures or other purposes). This has been achieved without negatively impacting supply chain trading partners.

A key technique in this respect is financial arbitrage — enabling smaller suppliers to leverage their larger buyers' credit ratings in order to gain more favorable lending conditions (incremental credit at a better price than a bilateral arrangement would afford), while buyers in return may benefit from extended payment terms. FSC is a rapidly developing sector and proof that treasurers are looking beyond the traditional avenues to put cash to best use.

Treasurers must also ensure cash optimization efforts continue to meet compliance requirements across all geographic areas of operation. Though it is easy to view compliance regimes as yet another source of cost and complexity — at least in the short term — regulation can act as a catalyst for lasting, wide-reaching change. This does, however, require forward thinking and access to the necessary guidance and operational support.

Compliance with the Single Euro Payments Area (SEPA) is a case in point. Though the initiative applies only to the euro zone, its principles can be applied globally with far-reaching benefits.

Regulation and Innovation

In fact, there are several elements of SEPA that offer the potential to improve operational efficiency globally and spark innovation. To illustrate, SEPA requires that all transactions are conducted in extensible markup language (XML) format. As XML can accommodate all payment transactions and not just those that come under SEPA, its use can bring not only significant enterprise resource planning (ERP) system benefits, but also enable global standardization and dematerialization.

The opportunities SEPA presents for international efficiency do not end with XML. For example, with the sole permissible account identifiers being International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs), both the gathering of such information and the challenges associated with incorrect or incomplete data can pose significant problems for allocation and reconciliation.

In order to overcome this, Deutsche Bank has developed Accounts Receivable Manager (ARM) for SEPA, a corporate cash management solution designed to help global organizations streamline receivables management. The solution allows multinationals to use IBANs to fully automate payer identification without the need to match existing client data, thereby enabling them to manage euro receivables throughout the euro zone using a single consistent reconciliation process. This not only reduces administrative costs but also minimizes the complexities associated with maintaining multiple bank accounts for separate lines of businesses — a further example of how regulatory pressures, combined with close bank-corporate collaboration, can drive solution development.