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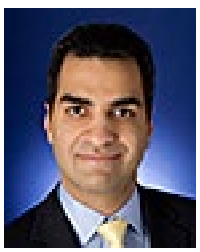
TreasuryPulse

Corporate Treasury in North America: Investing in the Recovery



By
Shahrokh Moinian
Managing Director and Head of Trade Finance and Cash Management Corporates, Americas
shahrokh.moinian@db.com

US corporates have always been and still remain at the forefront of innovation in treasury management. But as market and regulatory forces render global cash management an increasingly intricate process, increased dialogue and greater collaboration between banks and corporates will be vital to ensuring company cash flows can be optimized at the global level.

We are five years into the post-crisis era and US companies' prime concerns are not bank liquidity constraints, as many have accumulated significant cash reserves since 2008's "credit crunch." Instead, they are now focused on how best to optimize cash to invest in the global recovery.

While cash optimization is a perennial corporate concern, ongoing market uncertainty driven mainly by regulatory change is challenging longstanding cash management practices. The implementation of Basel III — an initiative designed to improve the resilience, risk mitigation and transparency of the global banking sector — is a good example of the need to re-evaluate current practices.

By stipulating that banks shrink balance sheets and hold longer-term deposits, Basel III may render shorter-term balances less "valuable" to banks, which may lead corporates to explore riskier investment options.

Overcoming this will require new solutions on the part of banks, as well as greater bank-corporate collaboration. Working more closely to determine the optimal duration of liquidity can allow companies and banks to reach mutually beneficial solutions, with corporates standing to benefit from better rates of return and banks being able to optimize balance sheet management.

The use of a call deposit account, whereby a set amount of cash is invested for a defined period that rolls over until called by the corporate client, is one example of such collaborative innovation.

Optimizing Working Capital

Working capital is so important that some corporates have appointed staff members to take specific responsibility for driving Days Sales Outstanding (DSO) and Days Payable Outstanding (DPO) optimization.

The increasing emphasis on improving the flow of working capital throughout the end-to-end value chain has sparked interest in financial supply chain (FSC) solutions. When correctly designed and implemented, FSC solutions can lead to optimal working capital throughout the supply chain — improving buyer-supplier relations and commercial sustainability and decreasing dependency on bank debt.

Financial arbitrage enables smaller suppliers to leverage their larger buyers' credit ratings to gain more favorable lending conditions, while buyers in return may benefit from extended payment terms. This is a rapidly developing sector and serves as proof that market and regulatory pressures are leading treasurers to look toward broader, more global avenues to put company cash to best use.

Treasury and Technology

The need for such global scope, in turn, underscores the reliance on technology. Indeed, technology and modern treasury management go hand-in-hand — and corporate demands for greater speed, efficiency, visibility over global cash positions and access to transaction-related data and information simply cannot be met without them.

However, technology advancement and innovation does not necessarily lie in enhancing functionality, but rather in improving access to existing solutions. This can mean enhancing their ease of use, as well as ensuring their global integration and deployment. Deutsche Bank's Autobahn App Market, for example, illustrates how electronic products across business divisions and asset classes can be combined into an integrated offering and adapt to clients' individual business profiles for an improved client experience. Each application is customizable to allow for maximum control and efficiency, and companies are also able to choose how applications are grouped according to their operating models.

Technology that can offer such a high degree of control and flexibility will be vital to US corporates, as they look to replicate domestic efficiencies in key overseas markets.

From Regional to Global Integration

Over the coming years, we expect the treasury focus of US companies on driving efficiencies globally to intensify. As Europe is pretty well-advanced in this respect for American companies, Asia and Latin America are becoming key regions of focus, as are the Middle East and North Africa (MENA), with companies looking to extend their MENA treasury hubs beyond Dubai and Abu Dhabi.

Rolling out treasury efficiencies across countries and continents can be a complex process that depends not only on capability, but also on detailed local market knowledge. The ability to replicate proven practices at home in another location is ultimately governed by what in-country laws, regulations and commercial norms do and do not allow. A partner bank with global reach, capabilities and a strong on-the-ground presence should be able to support such developments — and continue to act as a crucial facilitator as regional integration becomes global integration.

There is no question that these are changing, challenging times — and the importance of understanding and adapting to regulation cannot be overstated. Keeping abreast of regulatory change — and particularly its inconsistency across markets — requires banks and corporates to work ever more closely together to find mutually beneficial ways of overcoming the hurdles ahead.