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Can US MNCs Achieve More Centralized Treasuries in a 'New' Europe?

To centralize liquidity in Europe, some of the largest multinational corporations (MNCs) use cross-border cash concentration, pooling surplus funds from across Europe in a single location and enlisting a mixture of zero balancing, physical sweeps or notional pooling. This is a good start, but they can be doing more.

Many MNCs, even among the Fortune 1000, aren't taking advantage of globally integrated treasury solutions that combine payments and FX management. A number of European-specific factors are to blame for this breakdown in working capital efficiency, including:

- Disjointed payment systems and fragmented treasury data feeds.
- A lack of treasury automation. For example, some MNCs installed treasury workstations that were accessible only to a select few because early versions weren't Internet-based, which siloed processes.
- Highly fragmented banking capabilities and regulatory restrictions, which hinder cross-border treasury management.

"Global treasury has yet to be achieved," says Stephen Baird, a principal for management consulting firm Treasury Strategies, Inc. "Instead, most companies remain domestically centralized yet internationally decentralized. This just isn't going to cut it anymore. Companies that fail to pursue global treasury initiatives are at risk of underperforming."

Initiatives Bring Harmonization

MNCs have an opportunity to change this pattern of inefficiency, Baird says, by implementing more advanced cross-border solutions and taking advantage of the windfall of benefits expected to flow from major initiatives such as the Single Euro Payments Area (SEPA) and SWIFT-led payment standards harmonization.

The integrated payment system known as SEPA launches on January 1, 2008, to harmonize European payment standards. Through a phased approach, SEPA will require banks to accept pan-European payment instruments that use standardized formats (e.g., a Bank Identifier Code, or BIC, will be the only acceptable bank routing designation).

"In theory, SEPA should let companies channel their payments through one initiation and clearing point rather than disbursing locally. SEPA provides a major improvement opportunity even for companies who already operate a payment factory," Baird says.

Another set of initiatives is being led by SWIFT—enabling corporations to access SWIFT messaging directly via the Internet, using a standardized SWIFT messaging format. (SWIFT supplies secure, standardized messaging services for payments-related information and interface software to nearly 8,100 financial institutions in 207 countries and territories.)

"SWIFTNet is great for large companies that manage hundreds of bank accounts worldwide and find it extremely expensive to obtain visibility into account balances and direct payments through bank services," Baird explains. "SWIFTNet lets them generate their own SWIFT activity, streamlining and reducing messaging costs for MNCs."

Baird adds that SWIFT is leading an initiative to create a single, more standardized payments messaging format that supports global standards in Europe. The project, ISO 20022, will be XML-based and capture more information to make researching details on wires more automated, for example.

Improved Working Capital
All of these initiatives should help MNCs optimize their global cash balances, centralize control of high-risk activities such as derivatives trading, boost investment yields through liquidity pools, and reduce costs previously associated with intercompany payments and foreign exchange transactions through netting.

Baird also urges MNCs to explore opportunities to:

- Establish payment and receivables factories with single-point clearing.
- Leverage enterprise resource planning (ERP) roll-outs to push and pull global treasury data at a single point-of-entry to gain access to cash forecasting data and foreign exchange exposures.
- Implement globally distributed treasury technology utilizing Application Service Provider (ASP) treasury systems.
- Expand their netting and pooling programs as capital market regulatory restrictions liberalize.
- Streamline their global banking relationships and structures.

"Treasury must execute well whether managing cash deposited across the street or across borders," Baird says. "If you can add capabilities rapidly, and maintain core processes, information flows and communications networks that can be expanded to support new activities, you'll help drive enhanced working capital performance and reduced operational risk."

Liquidity management remains a great avenue for Treasury to gain influence within their organizations. Gathering and aggregating cash so it can be used to invest, pay down debts or generate superior yields must be a top priority as companies further globalize.

As the planned transformational changes within Europe are realized, Baird urges MNCs to remain steadfast in their efforts to break away from traditional organizational structures, technologies and payment processes.

"With more centralized management through SEPA and streamlined banking structures, companies can pool cash and invest more effectively, actively and for longer durations to generate higher yields," Baird says. "There will be a major payoff for companies that centralize payments and liquidity management."