

The globalization of treasury

Embracing innovation to optimize Working Capital and create value enterprise-wide. By **Paul Galant**.



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Today's increasingly competitive global environment has created the need for increased process and cost efficiencies. At the same time, Sarbanes Oxley in the United States and corporate governance initiatives in other countries are calling for greater transparency and increased oversight.

In response, treasurers worldwide are driving automation, standardization, and centralization to achieve efficiencies, and to gain the control and transparency necessary in today's regulatory environment. This article provides insights into regional trends, the treasurer's strategic focus, and innovative best practices treasurers are already using to create value.

World Briefing

Western, Central and Eastern Europe

In Europe, the clearing infrastructure is rapidly changing. The European Banking Association is in the process of introducing STEP 2, a Pan European Automated Clearing House for euro transactions, which will allow clients to make payments across Europe uniformly through a single format, at a single price and through a single account. This represents an additional option for clients who wish to operate across Europe through a hub account. Although there will initially be some limitations to the capability, we believe these issues will be resolved in the next two to five years.

Centralization and increased use of shared service centers are a continuing trend. Treasurers are now focused on including the ten countries that acceded to the EMU in May 2004 into their European pooling structures and shared service centers. We've also seen a move to shared service centers in Hungary and the Czech Republic.

Asia

There is a continued focus on centralization, with new regional and global shared service centers being established in places like India and China.

With centralization, interest in web-based delivery channels to support subsidiary access is also increasing. Also, while the concept of pooling Asian balances is not new, more treasurers are exploring how to centralize excess working capital. Asian liquidity management has become an integral part of effective global liquidity management and key to overall financial flexibility.

From a receivables perspective, clients are seeking more comprehensive solutions. They are consolidating providers and centralizing receivables processing functions into shared service centers. Treasurers are requiring a single data stream for multiple countries and multiple products.

Latin America

In Latin America, a number of related trends are transforming the landscape.

Progressive privatization efforts have strengthened the telecommunications, technology, and financial infrastructures across the region. The ability to exchange files speedily and cost-effectively via the Internet has made it possible for corporations to leverage shared service centers to gain efficiencies across subsidiaries. Although many corporations have already set up regional centers and gained efficiencies in payments, most corporations are still grappling with collection challenges. We continue to partner with clients to improve the receivables process. For example, in selected countries, we have established partnerships with convenience stores to increase collection points.

North America

The payment structure in North America is undergoing tremendous change. Check usage peaked in the mid 1990's, as consumers shifted to cards and electronic payments, and corporations aggregated check payments to the same beneficiaries, as well as converted to ACH credits. In addition,

two mechanisms focused on expediting check clearing are gaining in importance. The first, Automated Receivables Conversion (ARC), is used to convert consumer checks received in lockboxes across the country to ACH debits. ARC is a major driver in the explosion of ACH debit transactions in the United States. The second, Check 21, effective October 2004, is expected to accelerate the use of image exchange in check clearing. Check 21 recognizes a 'substitute check' as a legal replacement for a check. For clearing banks that are not able to accept image exchange in clearing, image replacement documents, printed from the digitized information, are presented.

We are working closely with clients to develop solutions that capitalize on both ARC and electronic check deposit (as a result of Check 21). We are also developing tailored solutions that allow clients to benefit from changing consumer practices and offer consumers the ability to initiate payments via multiple channels and instruments.

The Pulse of the Treasurer

A recent Citigroup survey reflects these global and regional trends and reveals that treasurers' top initiatives, in the following order, are to:

- »Gain transparency and enhance controls to meet corporate governance requirements
- »Optimize returns on liquidity in today's low interest rate environment
- »Enhance working capital
- »Reduce costs, and
- »Add value through innovation.

Similarly, the questions clients ask us most frequently include:

- »How can we ensure complete visibility and transparency of accounts worldwide, and reliability of information?
- »How can we best utilize pockets of liquidity around the world?
- »How can we improve our cash conversion cycle to reduce DSO?
- »How can we reduce costs through automation?
- »How can we create value for the corporation?

Ensuring Visibility, Transparency and Reliability of Information

Web-based online banking systems have radically improved a treasurer's ability to view real-time account information worldwide. However, large multinationals that deal with multiple banks in numerous countries remain challenged in their quest for a real-time view of their cash and borrowing positions globally and in generating reasonable cash forecasts. A real time view would enable them to gain control over working capital and manage liquidity more effectively on a

regional or global basis.

In response, Citigroup is developing a treasury portal that enables clients to aggregate cash, investment and borrowing data from multiple financial institutions. Using this secure, web-based portal, clients will be able to view and analyze global, regional and local positions and gain transparency to real-time information and forecasts. With transparency of comprehensive, real-time information, it becomes possible to better manage liquidity on a regional or global basis.

How Can We Best Utilize Pockets of Liquidity Around the World?

We work with clients to, wherever possible, utilize the most sophisticated techniques available to concentrate excess liquidity and enhance yield using domestic, cross-border and regional target balancing, as well as notional pooling and automated active investments. Through fully automated end-to-end liquidity and investment structures, treasurers are able to maximize returns and the use of funds across regions while minimizing interest expense (by offsetting debit and credit balances).

Many of our clients have pockets of cash in places like China, where it is not possible to move funds outside of the country. As a result, we are developing innovative ways to use the Renminbi more effectively within China. Treasurers can maximize liquidity through automated inter-company lending arrangements. In addition, Citibank is now the first and only foreign bank in China to receive approval from the People's Bank of China (the central bank) to offer physical cash pool structures.

In terms of active investment trends, we expect the use of automated investment services to replace the more time-consuming tradition of calling a desk to get a price. Citibank's web-based investment service offers a real-time rate feed and a comparative rate screen, immediate trading and confirmation, and straight-through execution. Treasurers can customize their service to include only those investments consistent with their investment policy, ensuring subsidiary compliance to investment policies, while creating audit trails, and mitigating risk.

How Can We Improve Our Cash Conversion Cycle to Reduce DSO?

More corporations than ever are now selling goods and services directly to their end-customers, thus they need multiple channels to reach those customers and multiple instruments to collect funds. We have responded by developing a service enabling communication via web, inter-

active voice response, or by calling a customer service representative, and by permitting payment by credit card, debit card, ACH debit and other payments.

For many clients, the ideal solution is to outsource collections handling and the manual reconciliation of receivables. Citibank collects receivables for clients in over 60 countries around the world and provides payment information in an electronic file format that is uploaded into ERP systems. With one client, a specific application of receivables matching achieved a 99.7% match rate on 400,000 transactions per week. This enabled it to reduce its accounts receivables staffing requirements from 80 to 15, and to free the team to focus on exceptions and customer interaction.

How Can We Reduce Costs?

Corporations have formed consortiums such as TWIST and RosettaNet to focus on developing standards to facilitate communication between corporations and banks. Many of the industry groups are converging towards agreeing to use the same standard for communication – SWIFTNet. Development of such standards will foster more straight through processing (STP) and increased automation, which will reduce costs.

Treasurers are driving costs out of processes, largely by centralizing and automating functions, or through the use of solutions such as electronic invoicing and payment. And, by using card programs for travel and entertainment and purchasing, treasurers can automate internal processes, reduce costs, and increase controls.

With commercial cards, corporations are increasingly looking for one issuer to administer their programs globally. A large oil company recently awarded its commercial card business to Citibank and in so doing, reduced the number of vendors it managed from 24 to one. By using a single, global purchasing card provider, corporations are likely to get a view of spending data globally, enabling them to negotiate better payment terms.

While travel and entertainment programs are going global, managers of purchase card programs are starting to export the success of their US purchase card programs to other regions. In Europe purchase cards are starting to catch on. In Latin America and Asia, there is growing interest in purchase cards and we anticipate adoption of purchase card programs in those regions. We also expect the purchasing card business will expand to include higher ticket transactions.

Creating Value for the Corporation?

As a trusted advisor to clients, we partner with treasurers to find innovative ways to add value not

only to their treasury organizations but also to the commercial units they serve. For one of our pharmaceutical clients, we leveraged our expertise in developing secure systems to create a unique tool that enables research and development collaboration across the web.

The Future

Treasury will continue to undergo a globalization process, mirroring what's occurring in the world economy. And, as we work closely with clients to meet their changing needs, innovation, internet and technology solutions will continue to be key.

A best practice treasury operation, now and in the future, is likely to feature multi-bank web-based information services that enable treasurers to gain greater visibility of their accounts and positions worldwide, global liquidity and investment management strategies that optimize funds flow end-to-end, global receivables solutions that maximize the reduction of DSO, and globally administered commercial card programs that enable a new level of cost containment and control. These best of breed services will enable clients to manage their treasury – and excess liquidity – on a global basis and truly maximize their working capital enterprise-wide. ☐

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