How Cash Concentration Solutions can Address the Challenges of Current Market Turmoil and the Opportunities of Emerging Market Growth

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Effective, broad reaching Liquidity Management structures are a critical tool for treasurers, enabling visibility over multi-region cash flows and balances, automated concentration of cash positions, and more efficient management of debt and risk.

By increasing visibility and control of funds held with multiple banking partners, in multiple geographies, treasurers can achieve the dual benefits of supporting their companies’ strategic goals, whilst mitigating against the inefficiencies and risks presented by a challenging macroeconomic climate.

**Figure 1 – Application of Cash Pooling**

<table>
<thead>
<tr>
<th>Use Cash Pooling</th>
<th>Regional</th>
<th>37%</th>
<th>Global</th>
<th>28%</th>
<th>Country-level</th>
<th>22%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>72%</td>
</tr>
<tr>
<td>Pool has 75% +</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>48%</td>
</tr>
<tr>
<td>Cash Flows</td>
<td></td>
<td></td>
<td></td>
<td>47%</td>
<td></td>
<td>33%</td>
</tr>
<tr>
<td>Automation</td>
<td>Regional</td>
<td>47%</td>
<td>Global</td>
<td>33%</td>
<td>Country-level</td>
<td>22%</td>
</tr>
</tbody>
</table>

Cash pooling is used by 87% of firms in the survey. Although most apply a daily process (72%), many pooling structures may not be as effective as possible, since half include less than 75% of cash flows and only 33% are fully automated.

Source: Citi Treasury Diagnostics, 2011.

Recent macroeconomic conditions and regulatory changes are accelerating the treasurer’s efficiency agenda.

Factors such as persistent low interest rates, slow economic growth in developed markets, cost and availability of credit and the increasing importance of liquidity and counterparty risk management are shaping the decision making process of corporate treasurers. Against this background, corporate treasurers will continue to face significant headwinds, in which treasury process inefficiencies can act as a further drag on business performance.

Treasurers are becoming increasingly involved in board-level discussions on risk, mitigation alternatives, and corporate strategy. A new era of economic uncertainty has precipitated the emergence of Corporate Treasurers as “Chief Economics Officer”.

The volatility of global market conditions during the past four years has served as a catalyst for the birth of a new generation of treasury strategies, priorities and models. Increased economic uncertainty has made it extremely challenging for treasurers to forecast short and long-term cash positions, thereby increasing the importance and value of liquidity.

Aside from managing the financial crisis, another hot-topic for corporate strategists during the past four years has been the emergence of developing markets as powerful economic forces. Countries such as China, India, Brazil and many African nations have benefited from globalisation and geopolitical advancements, which has lead to them no longer being viewed as a cost centre (1) but, instead, as important economic growth-markets and influential political decision-makers.

Successful corporations are adapting to these geographic shifts by targeting new flows of trade between ‘emerging’ and ‘developed’ markets and within emerging markets themselves.

(1) Whereas, historically, companies have viewed emerging markets as a source of cheap labour, they are now a valuable customer base and an important part of companies’ growth plans.
Figure 2 – Location of Growth Markets and the extent of globalisation – While a proportion of companies surveyed by Fidelity Analysts in 2011 rely on their home market as their source of growth, almost half are looking to fuel expansion outside of their own region.

Location of growth: To what extent are your companies focusing on markets outside their home country/region* to achieve growth (organic and inorganic)?

<table>
<thead>
<tr>
<th>Options</th>
<th>Votes</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all – all the growth will come from the home country/region</td>
<td>7</td>
<td>6.10%</td>
</tr>
<tr>
<td>To a small extent but the majority of growth will be from the home</td>
<td>46</td>
<td>40.40%</td>
</tr>
<tr>
<td>country/region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To a large extent – the majority of growth will come from outside the</td>
<td>55</td>
<td>48.20%</td>
</tr>
<tr>
<td>home country/region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completely – they expect all the growth to come from outside the home</td>
<td>6</td>
<td>5.30%</td>
</tr>
<tr>
<td>country/region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>114</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: 2011 Fidelity Analyst Survey

Leading banks are responding to these market trends and conditions in a number of ways in order to ensure that they stay relevant to their clients. Banks with market-leading Liquidity Solutions are able to offer a footprint to match clients’ expanding operating markets, combined with enhanced reporting and analytics tools that simplify risk management and the implementation of corporate investment policies. This enables treasurers to gain greater control over global liquidity, allowing intercompany funding to happen on a real-time basis – all of which gives treasurers more time and resources to act as a corporate, strategic partner.

Having the ability to provide seamless liquidity solutions, on consistent platforms in order to meet growing client demand for standardisation and ease of cash mobilisation, is high on the list of corporate treasurers’ priorities when selecting a global or regional liquidity bank.

Banks are striving to deliver liquidity solutions that fulfil the following key objectives:

- Service clients in as many of their markets as possible. Expand platforms into new geographies, including new currencies, in order to capture more flows (e.g. Emerging Markets to Developed Markets & vice-versa)
- Offer capability depth in new/emerging liquidity hubs
- Deliver reporting and analytics tools that provide consolidated, bank-agnostic visibility over global cash positions – accelerating clients’ efficiency agenda via better visibility and mobilisation of liquidity and self-funding operations
- Support client’s liquidity needs on a multi-bank basis – connecting together liquidity management and visibility tools across multiple banking partners

**Introducing Efficiencies with Cash Concentration tools**

A key step towards enabling the free flow of liquidity is establishing global pooling structures to automate the flow of funds through the entire account structure in a regulation and tax-friendly manner.

One of the challenges presented by recent geographic shifts in commercial trade flows is ensuring that the right amount of liquidity is available in the right accounts, in the right locations, in the right currencies, with the right banking partners, at the right times.
Navigating counterparty and sovereign risk concerns by concentrating funds away from specific institutions or countries, whilst ensuring that sufficient cash to meet daily obligations such as payroll and supplier financing is deployed across a multi-region enterprise, is a significant drain on a treasurer’s resources.

Treasurers have, historically, struggled to achieve all of the requisite visibility and control over global cash in order to achieve the goal of accurately forecasting cash needs across multiple financial institutions, geographies, time-zones and currencies.

Figure 3 – Priorities and Focus of Treasury – Financial professionals face a number of challenges given their organizations’ priorities and the macroeconomic conditions in which they operate. Three-quarters of survey respondents see “improving cash and liquidity management” as a key area of focus for their companies’ treasury operations.

Current Top Areas of Focus for Treasury Operations
(Percent of Organizations)

<table>
<thead>
<tr>
<th>Area</th>
<th>Over $1 Billion in Annual Revenues</th>
<th>Under $1 Billion in Annual Revenues</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrating Treasury Processes of Acquired Companies and Joint Ventures</td>
<td>24%</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Extending Treasury Involvement in Working Capital Management</td>
<td>41%</td>
<td>47%</td>
<td>42%</td>
</tr>
<tr>
<td>Improving Financial Risk Management</td>
<td>43%</td>
<td>40%</td>
<td>41%</td>
</tr>
<tr>
<td>Improving Cash and Liquidity Management</td>
<td>74%</td>
<td>72%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: 2011 AFP Liquidity Survey – Underwritten by Citi.

By introducing cross-bank automation of these functions, a corporate treasurer is better equipped to focus on more strategic decisions such as investment of surplus cash and better management of debt positions.

Banks with best-in-class liquidity solutions are able to offer treasurers new cash concentration tools that enable flexibility on how inter-company cash is managed (amounts, frequency, limits, buffers etc) without restricting the reach of the pool to accounts held with a single financial institution.

This facilitates the automated management of cash positions and can introduce a “hands-free” approach to some of the treasurer’s traditional day-to-day cash management decisions.

The most efficient bank solutions offer complete flexibility in determining how parameters are applied to concentration structures, ensuring that a treasurer can stipulate rules that match funding requirements on an automated, just-in-time and intra-day basis. For example, by implementing a set of configurable, rule-based parameters to a cash concentration structure, a treasurer can gain complete, automated control over the timing, frequency and value of fund transfers – thereby reducing the need for manual intervention when managing inter-company lending, counterparty limits, net-positions across cash pools and individual overdrafts, amongst many other day-to-day treasury challenges.
By utilising the right type of efficient cash concentration solution, treasurers can achieve a single, optimal point of access to funds with the global liquidity partner – funds that have been concentrated from multiple banks, globally, on a real-time basis. This enables treasurers to make the best possible investment choices for a consolidated cash position, whilst meeting the objectives of corporate investment policy and minimising build-up of idle cash.

Managing Counterparty Risk

Since the on-set of the global financial crisis in 2008, corporate treasurers have reacted to market turmoil by adopting a more conservative approach to the management of counterparty risk, which includes cash management relations.

However, as this pattern has emerged, a desire to consolidate cash across multiple banks as effectively and efficiently as possible, in order to avoid the reliance on external funding has simultaneously evolved.

As corporations expand into new markets and geographies to capture new trade flows, they look to banks to provide wide-reaching, multi-bank cash management solutions that enable a global liquidity bank to incorporate balances held in multiple countries into a single cash pool structure, regardless of whether the bank is present in those locations.

Multi-bank cash concentration is a tool that extends the efficiencies of liquidity structures and the coverage of an organisation’s cash pool. Leading liquidity management service providers are offering flexible multi-bank cash concentration tools, with configurable parameters, that may be used globally to include balances held with other banks as well those held within their own branch network.

Recognising that treasury policies will drive the need to retain accounts with multiple banks, a best-in-class provider will offer a fully automated platform to maximise the coverage of liquidity structures, whilst still retaining those relationships.

The Road Ahead

The emergence of new avenues of trade across the globe, particularly in developing markets, has been significant in shaping the way companies do business and the role that the modern corporate treasurer plays.

Managing cash positions, debt and funding requirements across an ever widening geographic reach is driving the compelling need for treasurers to focus on a broader working capital cycle and a more diverse supply chain environment.

The consequence of this evolution, along with the burdens and risks triggered by the financial crisis, has been the impetus for treasurers looking for progressive solutions from their liquidity banks.

Corporate Treasurers with access to a sophisticated, multi-bank cash concentration platform have the ability to introduce efficiencies to liquidity and risk management and their working capital cycle without having to negotiate the challenges of different languages, currencies, time zones and jurisdictions.

As the economic climate continues to present obstacles to efficiency, coupled with ever evolving regulation, corporate treasurers will become increasingly reliant on platforms that enable movement of cash positions across multiple banking partners into a single global cash position, on a just-in-time basis.
As a compliment to a branch network covering more than 100 countries, Citi’s Multibank Target Balancing and TreasuryVision products have existing relationships in place with over 540 banks, globally, offering solutions to clients who want to maintain this level of control, whilst complying with group counterparty limits.

The drive for liquidity efficiency is irreversible as it is at the core of a corporate treasurer’s agenda. Innovative cash concentration structures and reporting tools eliminate many of the manually intensive aspects of achieving global visibility, mobilisation and optimisation of cash positions – the three cornerstones of a successful cash management operation.

This enables corporate treasurers to meet the increasing demands of the modern-day role of being a key strategic partner and chief economic officer for their organisation.

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Citi has been a leader in addressing climate change, driven by our belief that sustainability is good business practice and our commitment to understanding and solutions. Our efforts include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change; (c) committing to an absolute reduction in GHG emissions of all Citi-owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles, a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.

efficiency, renewable energy & mitigation