


Two sides of the same coin



Cash visibility and working capital management are a priority at a time when credit is no longer readily available – smart choices in both areas are necessary to weather the financial crisis.

The current credit crisis has put corporate banking relationships to the test in several ways. Credit is less readily available, and when it is, the cost has increased while terms and conditions are less favorable for the corporate client. Moreover, corporate treasurers have discovered that the collapse of one of their relationship banks is less hypothetical than previously thought.

With credit becoming more expensive, CFOs and corporate treasurers are looking inside their companies for cheaper cash. Upstreaming even short term cash pockets requires actual

visibility on Bank accounts. But also working capital management is in the spotlight; shortening the cash conversion cycle even by only one day unlocks almost EUR 300,000 in cash for every EUR 100 million in sales. At the same time, CFOs and treasurers are now expanding their group of relationship banks, thereby lowering their dependency and reducing operational risk. But what about the cost and benefit?

Bank connectivity is key to efficient cash

Access to credit and getting a grip on the cash outside treasury requires a cost efficient and flexible multi-bank communication infrastructure. For good reasons companies have always tried to reduce the number of operational bank relationships. The interface between internal financial systems and several relationship banks result in high maintenance cost. The cost for internal IT resources necessary for maintaining electronic banking solutions and bank interfaces is typically a multiple of the bank charges incurred. In cases where system interfaces are non-existent, manual reconciliation processes not only increase operational cost, they also delay availability of accurate credit

“SWIFTNet allows standardization of the communication infrastructure.”

“Working capital management is a proactive form of cash management.”

and cash flow information. Furthermore, the cost of compliance is also multiplied.

The flip side of economizing on bank interfacing is that local entities typically operate bank accounts outside control of treasury. It is not uncommon for two-thirds of all bank accounts to be outside treasury's control. For cash visibility and operational risk management purposes multi-bank connectivity infrastructure is the preferred model.

SWIFTNet connectivity for corporates proves that multi-bank connectivity does not necessarily imply high and highly correlated overall IT costs when compared to the number of bank relationships. It is a highly scalable and flexible bank connectivity solution for both traditional treasury departments and advanced in-house banking and payment factory operations. It allows for standardization of the communication infrastructure and to a large extent also for messages and file format. Over the past few years SWIFT and SWIFT Service Bureaux have improved and simplified the on-boarding procedures for corporates and have reduced the overall operational cost. As a result SWIFT has become an affordable solution even for smaller companies or limited business cases.

strapped client mandated the treasury to centralize cash as much as possible and to make cash available for subsidiary businesses. The cash manager contacted local finance managers about local account balances and depositing into an overlay cash pool structure. The local management however was not convinced that treasury would make the cash available in time for paying their suppliers. Consequently local finance managers decided to use cash generated locally for (pre)paying their own suppliers prior to transferring it to treasury. As a result, group management spent more time on meeting annoyed suppliers of cash starved subsidiaries and finding (more expensive) cash for the other businesses while at the same time other suppliers were even paid in advance!

Working capital management is a proactive form of cash management and treasury needs to be involved. The example demonstrates the need to set the proper key performance

In France, many mid-sized companies are linked to banks through SWIFT.

Leading cash management banks started embracing SWIFT Corporate Access as an alternative to their electronic banking channels for corporates. SCORE, the closed user-group managed by SWIFT itself now includes 170 banking groups (700 bank branches). Any corporate customer in SCORE can technically connect to all of these banks using standard SWIFT messages (FIN) and bilaterally agreed file formats (FILEACT). During the Eurofinance Conference in Copenhagen, Deutsche Bank openly endorsed the solution as the future of transaction banking.

Local bank accounts: who's in charge?

However cash visibility is only the first step in controlling cash levels. Even in situations that treasury runs an overlay pooling structure, it is often local management that decides when and how much to deposit into the cash pool; cash levels are only partially controlled by treasury. Working capital management decisions by local finance staff often result in higher cash levels than otherwise necessary. Bringing these accounts within treasury's remit can unlock liquidity for the group, provided that a working capital management is executed consistently.

The fact that cash visibility and working capital management go hand in hand is best illustrated by this example. A cash

indicators (KPIs) and get visibility on the accounts that are still outside control of treasury. Without KPIs and visibility, cash will not be the corporate resource it could be.

Working capital and cash management are truly two sides of the same coin. Cash management is about the logistics of cash, whereas working capital management is about the timing of the cash flow. <



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