Four Steps to 100% Global Cash Visibility

Introduction: what's your view?

Lack of visibility over cash balances and risk exposures is cited year after year in industry surveys as treasurers' top priority and biggest challenge.

Even the most sophisticated treasuries have typically only achieved visibility of 80% of their cash. But should treasurers and CFOs be satisfied with this? After all, the elusive 20% represents a material amount, and often represents cash in emerging markets and volatile currencies that pose the greatest risk. In addition, this 20% soon becomes 25%, 30% or more as companies expand their business without addressing the issue.

So why is it so difficult to achieve visibility over corporate cash: not just 80% of cash, but 100%?

In this ebook we outline a straightforward four-step process that will enable you to reach 100% global cash visibility .

Step one: make the connection

The first issue is to ascertain how much cash is held in the company's bank accounts, across all countries and currencies. In some cases, treasury will only control certain accounts, e.g. treasury accounts and those owned by entities that are connected into a centralized treasury organization. Accounts that are managed at a local level may therefore be excluded. Even if treasury does not control every account, it is essential to achieve a central view of cash across all accounts to ascertain the group's liquidity and risk position.

Most companies that operate internationally work with multiple banking partners to diversify their risk, spread business across funding banks and access best-in-class cash management services in each country or region. A problem that results from this, however, is that banks provide balance and transaction information in different ways.

While most banks offer electronic banking systems, and often host-to-host connections with enterprise resource planning (ERP) or treasury management systems (TMS), each of these have different security tools and user profiles, and use different formats. Furthermore, some markets, particularly in emerging markets, require specific local solutions. In Europe, several countries use regional protocols such as EBICS and in Japan we see Zengin, for example.

Given the cost and effort required to use, maintain and integrate these systems, many treasurers take the decision to connect on a daily or intra-daily basis only for core accounts. The trade-off is that their 100% cash visibility target is missed.

Fortunately, there have been three technology developments to help overcome these challenges – SWIFT, XML ISO 20022 and Connectivity Hubs

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Step one: make the connection (cont.)

SWIFT: By leveraging the SWIFT network, treasurers and CFOs can achieve secure, multi-bank connectivity, which in theory eliminates the need to access multiple systems. There are a variety of ways to connect to SWIFT, including Alliance Lite2, MT Concentrator, or via a managed service bureau.

XML ISO 20022: Although previous efforts at standardizing financial messaging formats have had only limited success, ISO 20022 formats are now widely used, not only in Europe where these formats are used for SEPA payments, but globally.

The use of ISO 20022 is a vital step towards receiving information in a more consistent format, so data can be standardized to achieve a global picture of cash and risk, and used to develop rule-based, automated processes for cash application and accounting reconciliation.

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Step one: make the connection (cont.)

Connectivity Hub: While SWIFT and XML ISO 20022 are crucial steps in the journey towards 100% cash visibility, they do not solve the problem completely. Not all banks, or branches of every bank, are connected to SWIFT. In addition, SWIFT is not necessarily the most suitable or cost-effective solution for every corporation.

At Kyriba, we have taken a blended approach to bank communication, offering both SWIFT and direct-to-bank connectivity through our Global Connectivity Hub. Customers using SWIFT can use the Kyriba BIC, Alliance Lite2, and our SWIFTNet service bureau approach. Banks can also be directly connected, through web services, host-to-host solutions such as FTP, and country protocols including EBICS, CBI, and Editran.

While the ability to connect to banks through multiple means is significant, therefore maximizing account information and cash visibility, equally important is that treasurers no longer need to 'trade off' cost and resources against cash visibility. As a SaaS (software-as-a-service)-based solution, we manage bank communication on our customers' behalf, whatever the channel.

Customers access bank account information (or transmit payments or other financial messages) directly through our solution without the need to connect to, maintain or integrate electronic banking systems or multi-bank platforms directly. Formats are mapped automatically in our system so that treasurers have a timely, consistent and complete view of cash and risk data across the enterprise.

Step two: bring information together

The next step should be more straightforward in theory, but rarely is in practice: namely, to combine bank account data with cash positioning and forecasting information. When using spreadsheets and manual processes, the diversity of sources and disparate formats can make this time consuming and expensive.

At Kyriba, we deliver flexibility to consolidate forecast inputs and model future cash flow scenarios, automating the preparation of the cash forecast by day, week, month or other time bucket.

Step three: turn data into decisions

Consolidating data is not enough: treasurers need the forecast to be presented in a way that is relevant, meaningful, and enables them to make timely and confident decisions. At Kyriba, we provide easy, intelligent tools to reconcile actuals to forecast across a number of time horizons.

This not only analyzes how effective forecasts were, it provides treasurers with the insights and analysis to improve the accuracy of future forecasts – allowing them to be certain of their liquidity requirements across entities, exposures in each currency and where surplus balances reside.

Step four: look ahead with confidence

While daily cash management is often challenging due to incomplete or inaccurate data, these problems are compounded when it comes to looking further ahead across days, weeks or months. Inaccurate forecasting is one of the biggest obstacles to efficient liquidity and risk management. The cost of borrowing is increased, investment returns are sub-optimal, the effectiveness of hedging strategies is compromised, and the ability to invest in growth is reduced if treasurers need to hold a liquidity 'buffer.'

Realistically, treasury cannot control every factor that contributes to cash flow forecasting accuracy in some industries. However, integrating seamlessly with internal systems, engaging with business units and departments that contribute to the forecasting process, and leveraging powerful reporting and analytic tools can make a significant contribution to increasing accuracy.

Tools such as forecast variance analysis, extrapolation and trending of historic data, and cash flow modelling are increasingly valued by treasurers to use data more intelligently and improve the accuracy of decision-making. In addition, flexible dashboards and data visualization improves the quality of reporting, giving CFOs greater confidence in treasurers' decisions.

Conclusion

None of the issues outlined in this ebook are new, but the fact that they continue to pose such major obstacles to liquidity and risk management, and hamper effective decision-making, illustrates that attempts to solve these problems in the past have been insufficient.

Visibility, whether over cash, currency or interest rate exposures, bank account permissions or counterparty risk, is an essential pre-requisite to every treasury task, and underpins treasury's ability to expand its role in the future.

Today, innovative technology, and effective ways of putting this technology into practice, presents an unprecedented opportunity to remove obstacles to achieving visibility over cash and risk, make better decisions, and enhance the value the treasury offers to the business.

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Further reading

Achieving maximum cash visibility – a best practice guide

Best practices in international cash management

Perfecting the cash forecast: adding business value to the organization

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Kyriba is the global leader in cloud-based Proactive Treasury Management. CFOs, treasurers and finance leaders rely on Kyriba to optimize their cash, manage their risk, and work their capital.

Our award-winning, secure, and scalable SaaS treasury, bank connectivity, risk management and supply chain finance solutions enable some of the world's largest and most respected organizations to drive corporate growth, obtain critical financial insights, minimize fraud, and ensure compliance.

To learn how to be more proactive in your treasury management and drive business value, contact treasury@kyriba.com or visit kyriba.com.

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