The fear of race to zero driven by cost-cutting and a largely undifferentiated approach to a market fuelled by cross-border expansion has made the cash and liquidity management industry more competitive. The industry is also changing due to digital convergence, but participants reported that many customers were slow to appreciate the benefits that new technology can provide. While this is a common theme, it is particularly true in countries where business culture is more conservative.

Overall, the introduction of tighter and more carefully crafted credit policies and ratios, following the implementation of Basel III, will force banks as well as corporate treasuries to optimise cash and liquidity management in order to improve their access to credit, while minimising their cost of lending. This can only be achieved with proper cash and liquidity management tools and strategies. Banks and companies still enjoy unexploited potential as the cash and liquidity management tools available to banks and, in particular, to corporates have not yet been fully leveraged.

Today, banks have a range of tools at their disposal, including Sweeps and Cash pooling, where the ‘overlay’ account structure provides a simple mechanism to facilitate the physical concentration of cash across borders to a central liquidity pool. A pan-European bank can establish overlay bank accounts in each country where the corporations operate and use these accounts as the local operating accounts. The cross border movement of funds can be easily handled through an automated, electronic transfer in the books of the bank. Since the overlay structure involves the physical movement of funds between countries, inter-company loans are established and maintained amongst the participants.

Nucleus Software hosted a cash and liquidity management round table at The Westin Hotel, Frankfurt on 5th February. The event saw participation from over 20 executives from a range of leading banks - large domestic lenders to international tier one banks - in cash and liquidity management services. Senior representatives from major infrastructure providers were also present at the round table.
Another tool being used to offer cost savings to corporate customers is Notional pooling. This refers to the off-setting of interest income and expense (credit and debit interest) resulting from the varying cash positions in separate bank accounts held at the same bank. It was pointed out however, that Notional pooling is not permitted in all the countries, notably the US and Germany, where tax authorities consider it to be a co-mingling of funds. The sentiment, echoed by participants, was that Working Capital is seen as key performance indicator for the Transaction Banking relationship between the corporate and the bank. Accordingly, banks are focusing on ramping up capabilities as well as advisory business whereby they can deliver upon this key commitment area.

Payments on behalf of (POBO), Receivables on behalf of (ROBO) and Netting are a step in this direction to help banks offer measurable gains to corporate in curbing the cost of working capital. They help in freeing up excess cash tied to multiple bank accounts by minimising the overall number of accounts that a corporate manages with the bank.

While the opportunities provided by developments in Information Technology are significant, customers don’t appear to adopt them at the speed typically claimed by the industry press articles. Examples discussed included the adoption of paperless systems and the rate of adoption of mobile technologies being greater for consumers than for corporate customers.

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**Figure: Bank Overlay Structure- Cash Sweeps and SWIFT**
Another key finding that emerged at the round table is how the client relationship and customer service “consultative” approach is proving much more successful in helping clients to adopt new technologies that can benefit the customer and the bank alike. Within this context, technology can provide a significant competitive advantage in terms of increased functionality and reduction of unit costs. But on its own, and without a well thought customer engagement and education strategy, the speed of customer adoption can be suboptimal. Smaller banks are proving to be more effective through focussed customer service centric approaches but larger organisations are at risk of commoditising the service further, whenever competition is driven on pure price instead of customer service.

Despite generational differences in adoption and potential cultural resistance, the pervasive use of technology together with rising customer expectations is leading to a tipping point. The group felt that the new generation of corporate treasurers are far closer to digital natives than previous generations. They have begun to seek corporate versions of the bank’s consumer solutions. However, this places huge pressure on the IT infrastructure within banks. Many round the table speculated on what happens when a corporate treasurer demands real-time access via his/her iPhone? Will the banks’ back end systems support that?

Many participants in the discussion felt that coping with regulations will continue to be a challenge for the growth of the banks. The increased capital requirements of Basel III are likely to require banks to look anew at their pricing across all products and especially in their trading books including Cash Pooling & Notional Pooling. Treasurers have traditionally raised financing in the cheapest markets, and swapped the funds raised into different currencies. However, the economics of such arrangements may now change. It may be necessary to re-assess the cost and benefits of transaction hedging and of current operating models.

Another aspect discussed was about how regional treasurers are being told by their HQ what to do and which bank to choose to provide services, and how this is causing internal conflicts as some of the global choices do not offer the products and services the regional heads require. It was generally agreed that cash management services are expected to be available through ubiquitous access and to provide high quality and personalised services through the smart leverage of business information from “big data”. Participants were in agreement that big data is one of the unexploited opportunities for cash and liquidity management providers as very few organisations are able to leverage their data assets into competitive information for business purposes (e.g. cross-selling). The challenge for banks is not the lack of availability of data but often the quality of the data itself and the ownership of data that, despite being potentially highly correlated, is often held by different organisations within the same company, posing data protection limitations and challenges.

Technology can be an enabler not only to address the data quality and access issue, but in particular, can offer the ability to reduce unit costs and to alleviate margin pressure due to a “race-to-zero” with fees. Cash and liquidity management providers should review their value proposition and, once identified what constitutes their core advantage, should consider the benefits of factories and service centres where large transaction volumes can provide cost savings for anything that is not a unique differentiating factor for a provider. This is also part of new business models that are emerging from within the financial services industry after the last financial crisis, with organisations moving away from a universal banking approach towards collaboration within the banking industry.
In addition, there is a need to collaborate with providers that can ultimately deliver a competitive advantage. During the discussion, this was a theme of the risk of disintermediation for banks due to new entrants with advanced technologies. The latter are often operating in niches and changing the way financial services are delivered, thanks to being free from legacy technologies and not being frequently subjected to the same compliance burden that incumbent cash and liquidity providers are.

A common perception, that banks are slow and new entrants are fast, emerged on a few occasions during the discussion but ultimately the conclusion was that banks are changing and that the change is deep, even if not always appreciated or easily visible. It was also agreed that banks are uniquely placed within the value chain to be successful as long as they are able to leverage their core strengths. Examples discussed included many organisations that have established innovation and incubator units that are leading change from within the industry and that ultimately will be the catalyst through which cash management and liquidity providers will evolve and be part of a reshaping market.
THE ROUND TABLE WAS FACILITATED AND MODERATED BY:

Francesco Burelli

Partner at Innovalue Management Advisors and member of the Editorial Advisory Board at Timetric, Francesco is a retail and corporate payments and transaction banking expert with over 19 years of experience working with payment schemes, banks, processors, technology providers, NGOs, government agencies and corporate treasuries on global basis. Fellow at the Institute of Financial Services (UK), he was awarded ‘Industry Consultant of the Year, 2014’ by the ATM Industry Association. He is quoted frequently on industry publications and is a regular speaker at industry events including the recent Harvard School of Law’s Retail Payment Systems Conference 2015

Nucleus Software

Nucleus Software is the leading provider of mission critical lending and transaction banking products to the global financial services industry. Its software powers the operations of more than 150 companies in 50 countries, supporting retail lending, corporate banking, cash management, mobile and internet banking, automotive finance and other business areas. Nucleus Software is known for its world-class expertise and innovation in lending and transaction banking technology. Its flagship products, built on the latest technology include - FinnOne, named the World’s Best Selling Lending System for 6 years running (IBS Publishing) and FinnAxia, an integrated global transaction banking solution used by banks worldwide to offer efficient and innovative global payments and receivables, liquidity management and business internet banking services. Visit us at www.nucleussoftware.com

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PARTICIPATING ORGANISATIONS:

Heads of Cash & Liquidity Management from the following organizations attended the round table:
Barclays, BBVA, Citigroup Global Markets, Commerzbank, Credit Agricole, Eurex, GM Financial, Vietinbank, Ziraat Bank