STAFF WRITERS

Worldview

A smarter way to global cash visibility

At a time when corporate treasurers require ever-greater cash visibility and agility, Ron Kors, executive vice president of Bank Mendes Gans (BMG), a member of the ING Group, and Dick Oskam, global head transaction services sales for ING Wholesale Banking, explore alternative routes to cash centralization—from true global cash pooling to virtual cash management solutions.

KEY TAKEAWAYS:

- Treasurers are under mounting pressure to ensure that they have full cash visibility and accessibility.
- Many current cash pool offerings leave companies with no choice but to set up several regional pools, rather than a single global one.
- Treasurers across the globe are increasingly looking into the wider possibilities of virtual bank accounts (VBAs).

Why is cash centralization such a high priority for treasurers today?

Dick Oskam: Continued market volatility is highlighting the need for effective management of working capital and excess liquidity, whilst maintaining corporate borrowing at minimum levels. Mitigating counterparty and country risk are also key concerns for treasury professionals, given the uncertain geopolitical outlook, as well as complying with new tax and other regulations.

As such, treasurers are under mounting pressure, both internally and externally, to ensure that they have full cash visibility and accessibility, right across the group.

Ron Kors: In addition to digital tools such as virtual bank accounts and virtual cash management, which Dick will elaborate on, one of the tried and tested ways of achieving the desired level of visibility, control and accessibility is by centralizing cash through an overlay pooling structure.

Is that feasible, a truly global cash pool?
Kors: A global cash pool can certainly be achieved, but it depends on the capabilities of the corporate's chosen cash management provider. Many current cash pool offerings leave companies with no choice but to set up several regional pools, rather than a single global one. As well as failing to deliver full cash centralization, this can lead to unnecessary FX swaps, if one regional pool is long cash and another is short, for example.

Oskam: Many so-called 'global' cash pools can only be achieved for major world currencies, with corporates unable to add more exotic currencies. What's more, the vast majority of global cash pools or even regional cash pools do not operate across multiple banks—which is far from ideal when corporates are required to diversify their banks and manage risk geographically.

To what extent is Basel III a threat to pooling?
Kors: Basel III prescribes that when multiple claims and liabilities exist (separate bank loans and deposits), banks will likely have to hold more capital and a larger liquidity buffer. However, many banks have architected their cash pool solutions ensuring that just a single claim, in a single currency, on a single counterparty remains at the end of each business day. The expectation is that this will be further clarified in legislation, keeping them economical for treasurers.

Oskam: In short, pooling will continue to be offered by committed banks. But the industry will also look to explore alternatives for treasurers, leveraging the latest cash management and technology developments to ensure corporates have a wide choice of solutions available to centralize and manage their global cash.

What might an alternative to pooling look like?
Oskam: As Ron alluded to earlier, treasurers across the globe are increasingly looking into the wider possibilities of virtual bank accounts (VBAs). At a fundamental level, VBAs are bank-issued virtual current accounts that replace current physical accounts and instantly route payments and collections to a linked 'master' real current account. Every VBA has a unique virtual bank account number (VBAN), which helps to segregate funds in the master account.

When used in the right way, the potential benefits of VBAs include the ability to centralize incoming and outgoing transactions and achieve cash concentration—which is precisely why they are being seen as an alternative to pooling.

Easily set up, they also offer treasurers benefits such as straight-through reconciliation and reduced manual post-processing of unmatched items. Since physical account structures can be rationalized and no balance is held on a VBA, bank account costs and administration burdens will be significantly reduced.

Kors: Rather like global pooling though, some misconceptions still exist around VBAs. This means they don't always get the attention or credit they deserve.

Can you give a few examples?
Kors: A common misconception is that VBAs are only suited to nonbank financial institutions for allocating client monies or large collections businesses, like utilities, as a means for improving complex reconciliation processes. Although these sectors were certainly early-adopters, VBAs are just as suitable for multinationals in other industries too.

Oskam: And VBAs don't just work for corporates with multicurrency cash flows coming in from different legal entities and geographies. They can also benefit corporates with purely domestic cash flows, helping them to streamline their cash management processes, potentially reducing the drain on experienced staff and minimizing future investment in sophisticated ERP/TMS systems.

How do virtual ledger accounts (VLAs) work in the context of virtual cash management?
Oskam: VLAs are administrative 'subaccounts' of a single current account. Under the current account, the treasurer can open, close and modify as many VLAs as required, and organize account hierarchies as appropriate. Funds and transactions can also be earmarked as belonging to a VLA, allowing treasury to allocate funds without physically dividing them.

Through VLAs, treasurers can reap the benefits of a structure that mimics physical bank accounts whilst harnessing the power of near real-time multibank data and reporting. Moreover, by facilitating the set-up of in-house bank and payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO) structures, treasuries can reach a greater level of cash centralization.