

Trending: Making Liquidity Visible in the Financial Supply Chain

Case study and presentation: How can banks help corporates to grow their business by freeing up liquidity and reducing working capital?

Managing the Asset Cash – Managing the Liabilities



Companies

- The asset cash / liquidity for growth
- Liquidity has a cost (cost of carry) \neq WACC
- A robust cash flow forecast is important
 - financial supply chain squeeze
 - Investors like a predictable free cash flow
- Asset cash may be used to optimize Balance Sheet and P&L



Banks

- Source of funding - Liquidity from clients (deposits)
- Basel III LCR requires a sufficient liquidity portfolio (HQLA) to manage a 30d stress event
 - distinctions between operating and non-operating deposits
 - Non-operating deposits will increase costs through the leverage ratio and the opportunity cost of low-yielding HQLA

The Eco System...



Balance Sheet

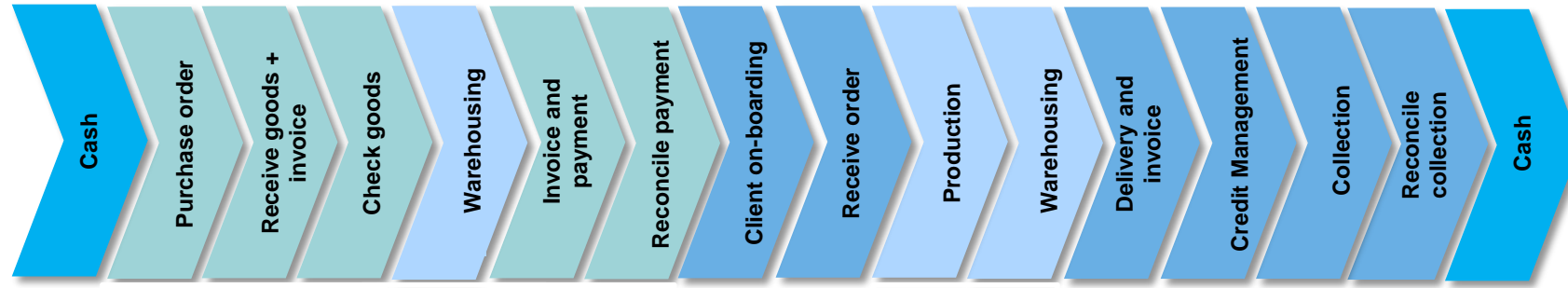
| | |
|--------|----------------|
| Assets | Equity |
| | Long term Debt |



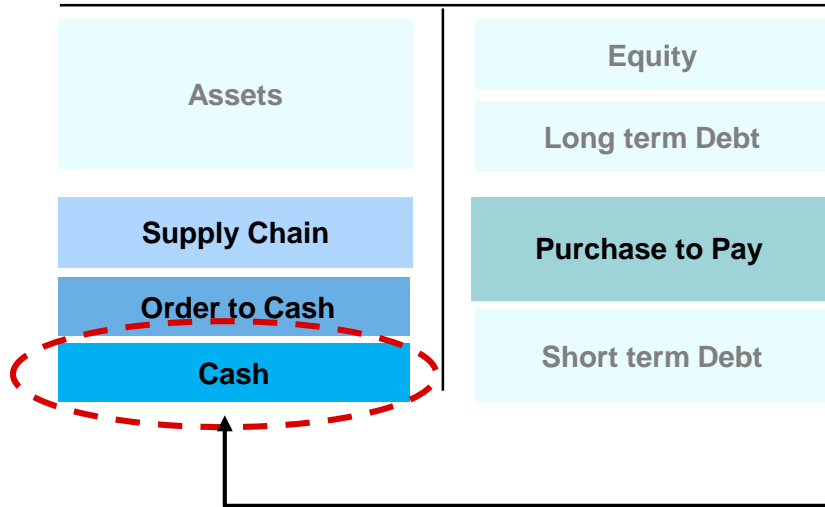
Bank Balance Sheet

| | |
|--------------------------|---------|
| Loans and other services | Equity |
| | LT Debt |

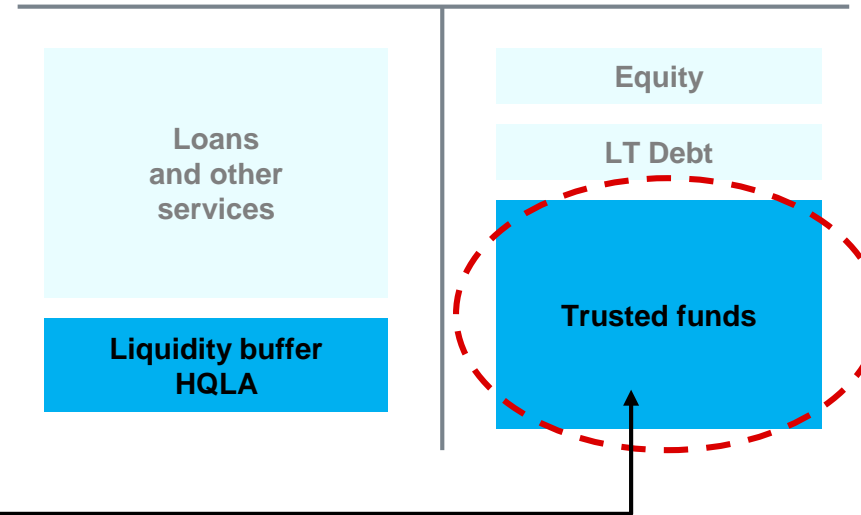
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Bank Balance Sheet



Managing the Asset Cash – Poll



Balance Sheet

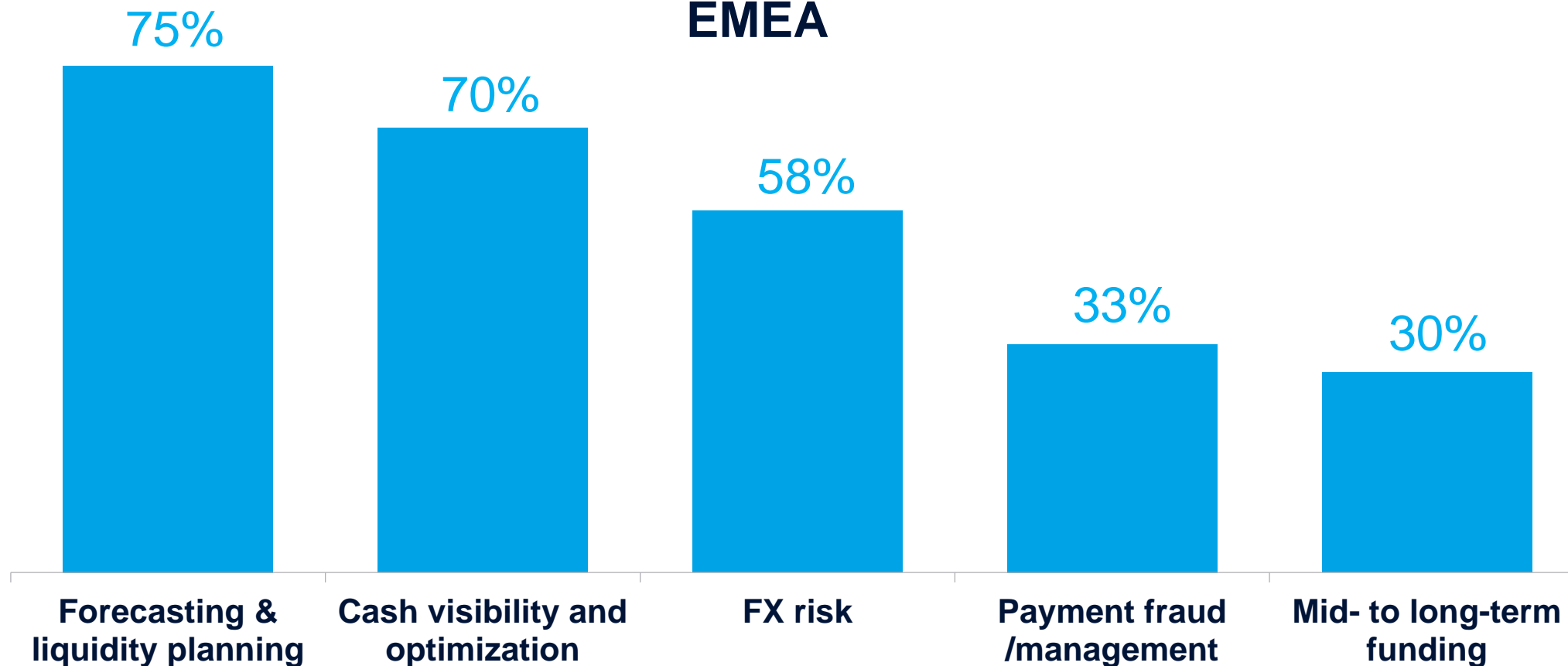
| | |
|---------------|-----------------|
| Assets | Equity |
| Supply Chain | Long term Debt |
| Order to Cash | Purchase to Pay |
| Cash | Short term Debt |

What is the top priority for a treasurer or financial manager in respect of managing the asset cash?

1. Liquidity forecasting
2. Cash visibility
3. FX management
4. Instant payments

Evidenced by Research

Top 5 Treasury and Risk Management challenges in EMEA

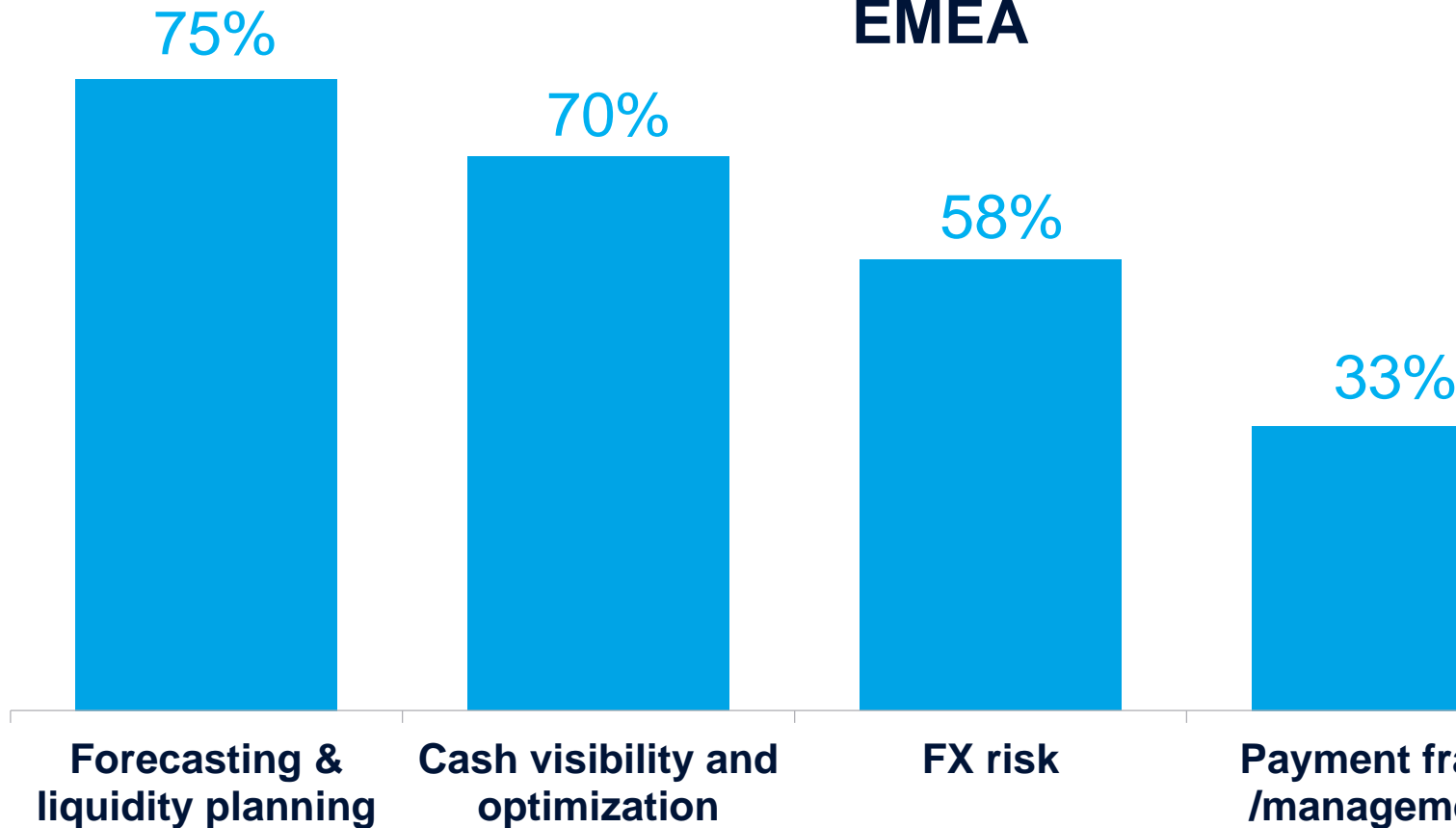


* ION - Global Treasury Benchmarking Survey 2016 N=1000, 46% EMEA

Evidenced by Research

Top 5 Treasury and Risk Management challenges

EMEA



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CASH VISIBILITY IS TOP PRIORITY FOR ASIAN TREASURERS

Improving cash visibility is the top priority for treasurers working in Asia-Pacific over the next 12 to 24 months, according to new research.

It was identified as the primary area of focus for over 60% of treasury professionals who were questioned for the *Asia Pacific Treasury Management Barometer* survey conducted by Bank of America Merrill Lynch and technology provider SunGard.

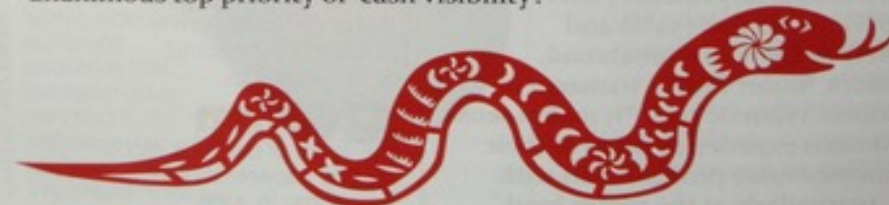
Other priorities for Asia-Pacific treasurers were yield enhancement and interest expenses (cited by 44%), cash concentration (44%), rationalising bank accounts (38%) and mitigating counterparty risk (31%).

Treasurers identified cash flow forecasting as a particular source of pain when operating in the Asia-Pacific region. Only 14% of respondents said they were completely satisfied with their cash flow forecasting processes and 66% revealed that they don't use treasury tools for cash flow forecasting.

The research found that unsatisfactory cash flow forecasting processes are largely due to complications arising from internal platforms, policies and procedures.

The top five factors that inhibit accurate cash flow forecasting are inaccurate sales targets and projections (35%), lack of internal systems integration (35%), limited availability of resources (23%), ineffective centralised reporting processes (23%) and inefficient collections processes (19%).

Commenting on the survey results, Ivo Distelbrink, head of global transaction services, Asia Pacific, Bank of America Merrill Lynch, said: "Domestic reform and increasing internationalisation will continue to be the key challenges facing treasuries across Asia for the next 12 to 24 months, a sentiment echoed in their unanimous top priority of 'cash visibility'."



Treasury and Risk Management Challenges by Region

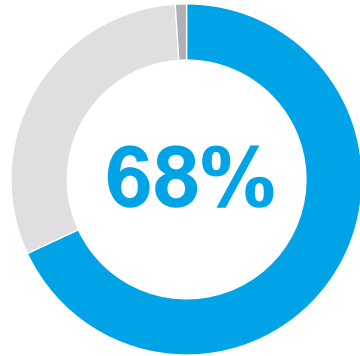
| Treasury and Risk Management Challenges | Americas | EMEA | APAC |
|---|------------|------------|------------|
| Cash visibility and optimisation | 64% | 70% | 59% |
| Payment fraud / management | 36% | 33% | 31% |
| Forecasting & liquidity planning | 78% | 75% | 70% |
| Mid to long-term funding | 27% | 30% | 32% |
| FX risk | 43% | 58% | 57% |
| Interest rate risk | 28% | 24% | 36% |
| Counterparty risk | 16% | 27% | 19% |
| Commodity risk | 12% | 13% | 11% |

* ION - Global Treasury Benchmarking Survey 2016

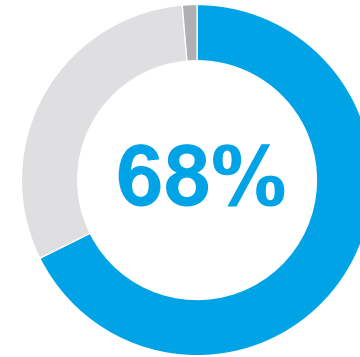
Managing the Asset Cash to Manage

- Supply Chain Disruption Risk – Disruptive risks tend to have a domino effect on the supply chain and impact liquidity
- Cash utilisation and reduction of capital employed
 - Cost of carry of cash / liquidity (WACC)
 - Balance sheet and P&L optimisation
- Manage investors expectations (cash flow forecasting)

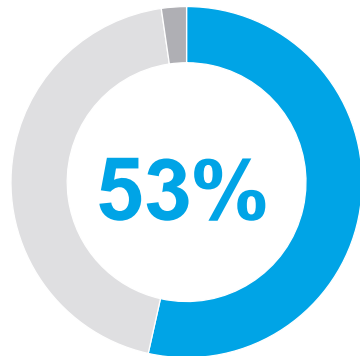
The Future of Corporate Treasury



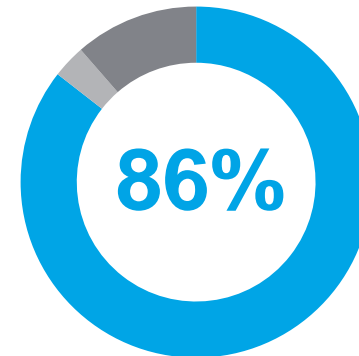
Importance of treasury
will increase



Scope of treasury
will increase and teams will be the same or shrink



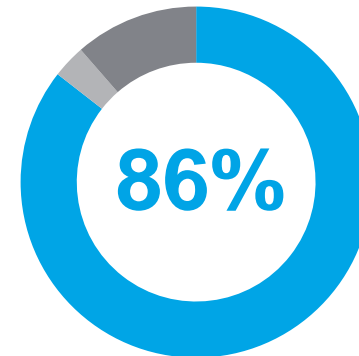
Internationalisation
will increase risk profile



Technology
seen as the main catalyst for
treasury transformation

Are we Supporting the Client Enough with Technology to:

- Properly manage the liquidity in the supply chain
 - Approved payable financing and dynamic discounting
- Provide company wide liquidity visibility from
 - Cash, Trade as FX transactions
- Provide tooling for cash flow forecasting



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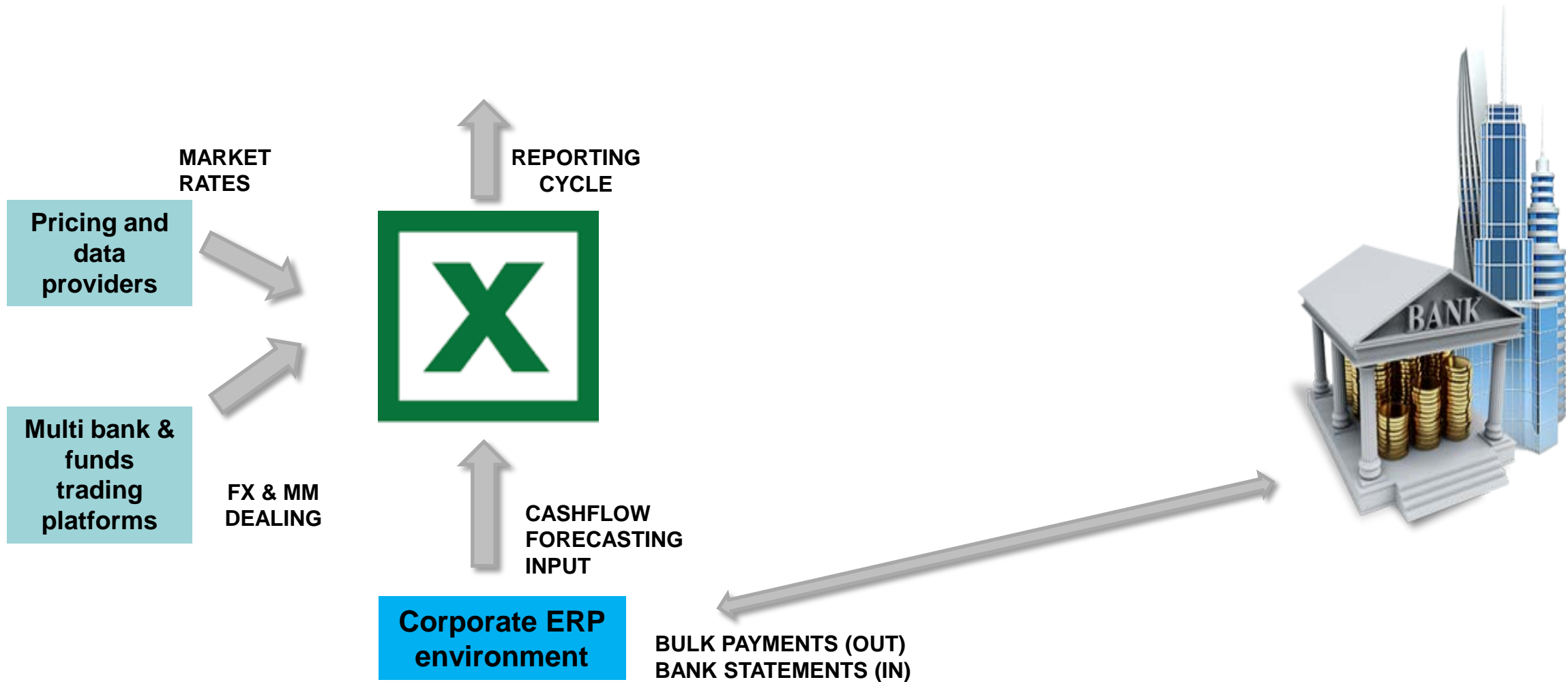
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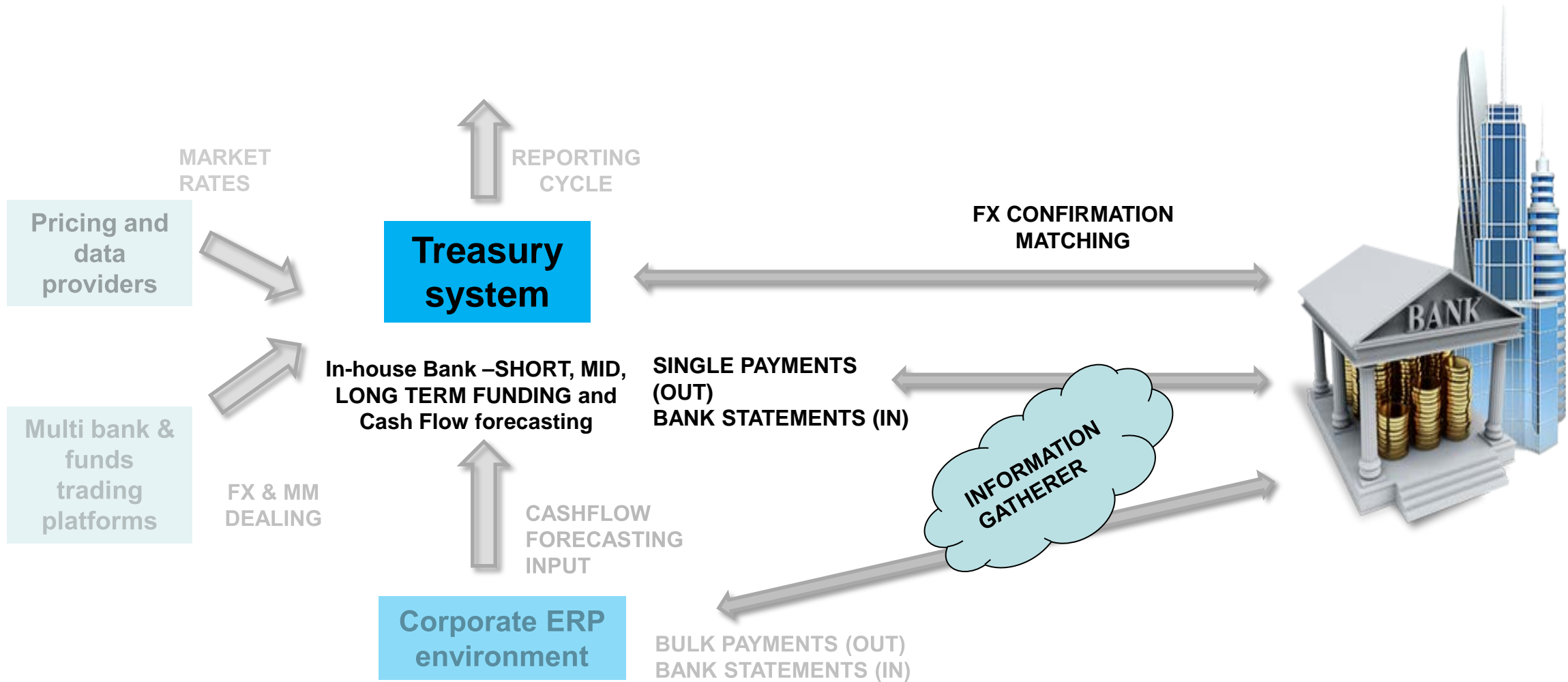
For which client group – sweet spot clients

- International business model with international supply chain
- Working capital and/or liquidity is an issue
- Professionalism of finance managers or treasurer
- Use of technology, e.g. is Excel used as an operational tool or a reporting tool?

A Typical Corporate Treasury System landscape



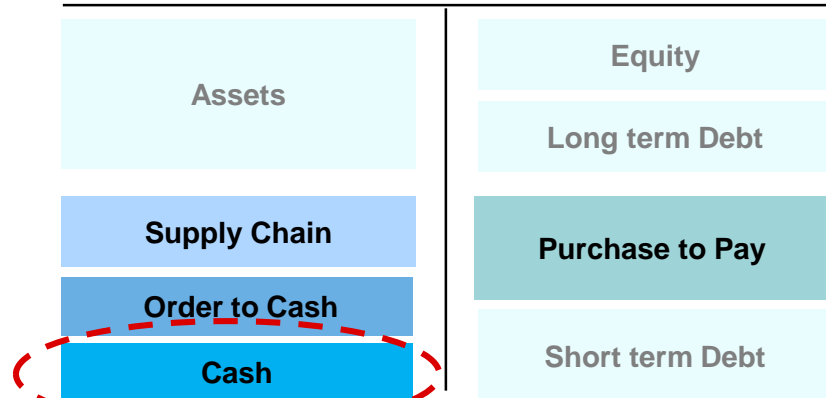
A Typical Corporate Treasury System landscape



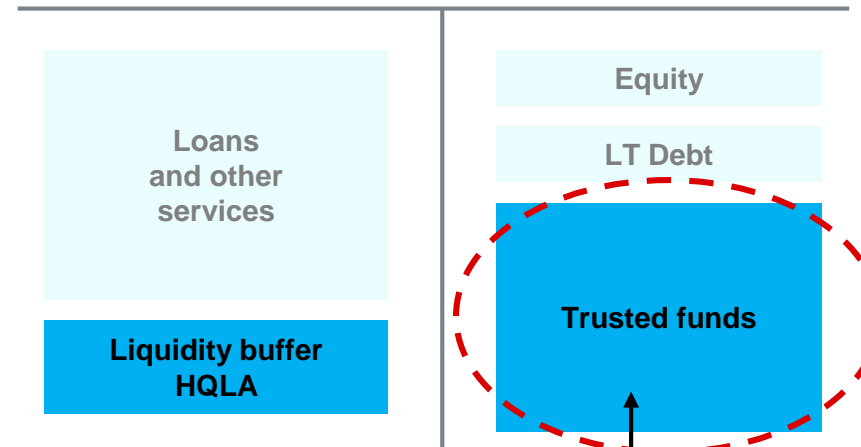
The eco system...



Balance sheet



Bank balance sheet



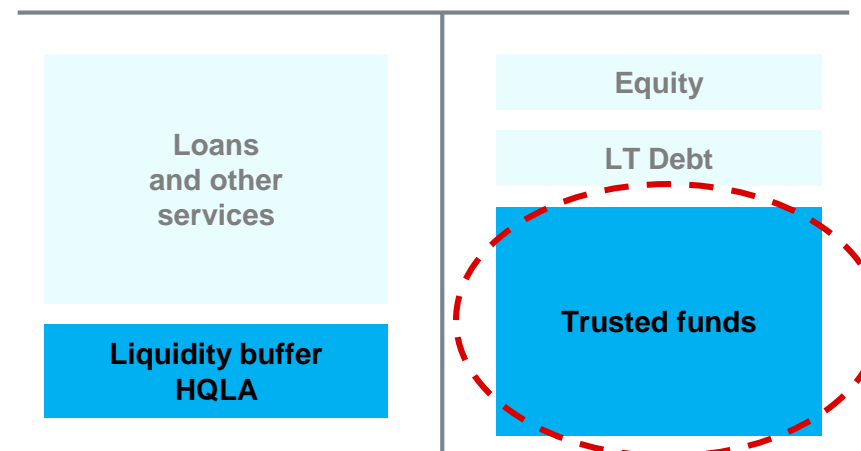
Managing the Liabilities – Poll

Do you have a structured policy (more than pricing) to articulate to corporate clients which deposit the bank is interested in and what the alternative investments are?

1. Yes for at least the last 6 months
2. We recently started this
3. We plan to do this shortly
4. This is not on the agenda yet



Bank balance sheet



Business Model of Banks and Liability Gathering is Changing

Macroeconomic & Regulatory Drivers

- Negative Interest Rates
- LCR - deposits have to be covered by HQLA
 - HQLA impact on leverage ratio less performing asset
- Fee business (transaction fees) is deteriorating

Impact on Transaction Banks

- Banks need to look for more fresh stress-compliant funding with low HQLA impact
- Sweet spot: Small deposits from a large number of clients have high value
 - Focus on operational deposits
 - Incentive clients for non operational deposits to off balance sheet investments
- Collaborate with clients to review and adopt new investment policies in light of market changes

To Conclude – Help the Clients and the Bank Balance Sheet – Investments

- Banks should collaborate with clients to adapt to the new reality to balance between appetite for
 - yield
 - maturity
 - principal protection
 - risk diversification
- Articulate clearly to clients which deposit the bank has an interest in
- Unlocking potential for off balance sheet investments, through asset management cash funds

To Conclude – Help the Clients and the Bank Balance Sheet – Technology

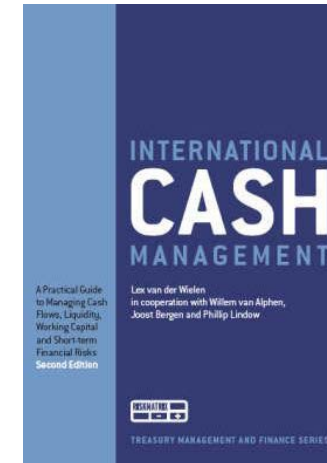
- Customer expectations are rising with changing technology
- Add value and replace Excel to provide corporate treasury technology as an extension of the bank's portal
 - Give the client improved control mechanisms and reduce operational risk
 - Increase wallet and revenue through gross selling
 - De-risk the bank balance sheet on the asset side as clients are more in control
 - Strengthen the client relationship

Profile

Joost Bergen Owner and Director of Cash Dynamics

- Many years of experience in the Treasury & Liquidity Management universe
- Engagements with many corporates and banks among G-SIBS and B-SIBS
- Managing Director of the EMFC (Executive Master of Finance & Control/ Master of Science) of Amsterdam Business School, University of Amsterdam
- Co-Author of the book “International Cash Management”
- Speaker at conferences including GTR, EBA, DACT, BAFT and Nyenrode Business University
- Holds a Masters in Financial Economics, prior to this worked for a Corporate Finance firm, ABN AMRO Bank and a Finance & Treasury advisory firm

Cash Dynamics is an advisory and training firm in the area of liquidity management and managing liquidity for both banks and corporates with clients in Europe, Asia, Africa and North America



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Thank you to speaker

- Joost Bergen, Owner of Cash Dynamics and MD of the Executive Master of Finance & Control of the Amsterdam Business School