BEST PRACTICE GUIDE

Cash and treasury: Prepare for instant payments and build true cash visibility

Financial Services

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Get ready for real-time payments

Global events and changing consumer expectations continue to accelerate digital and mobile commerce, prompting the need for a more modern payment system.[1] Now, for the first time in 40 years, the Federal Reserve is rolling out a new solution designed to modernize the US payment system: the **FedNow Service**. As a result, individuals and businesses can expect to send and receive instant payments (near real-time) when interacting with financial institutions that are part of the FedNow program.[2] FedNow is expected to launch in 2023.

The initial value of the new real-time payments (RTP) is that funds can be made available immediately. These transactions are nearly instantaneous payments and always online (24/7/365), delivering fund access in mere seconds. In addition, the new instant payment rails (the digital infrastructure making this possible) bring more holistic communications. Instead of information only moving from payer to payee, it will be possible to exchange payment data in both directions and within the payment system itself.[3]

Furthermore, instant payments will help increase efficiencies. According to PaymentsJournal, today's payment processes are slow and inefficient: "Lag times and a lack of transparency surrounding the arrival of the funds can hinder communication. All in all, a fragmented communication process comes with challenges that impact everything from business flow to liquidity and risk management."

For true cash visibility, financial services organizations need to be able to monitor all intraday activity.

RTPs can overcome these problems: "Bilateral communication through integrated information flows, instant payment confirmation notifications, and settlement finality result in a more efficient payment journey. With real-time payments, financial control, cash positioning, and liquidity management are now in reach."[4]

Today, financial services organizations are more focused on what's necessary to safeguard business continuity and solvency. Much of this begins with greater visibility and reliability of key data to help drive critical business decisions, especially during critical market changes. Whether you call it faster payments, immediate payments, instant payments, or fast money, RTP technology has gained a solid foothold in the payment processing world.

Banks and other entities are being urged by global regulatory agencies to educate and ready themselves for the impending payment changes. Whether it is Pay.UK, Payments Canada, or the Federal Reserve, they're each encouraging financial institutions, fintech firms, and businesses to prepare to leverage and capitalize on the benefits of instant payments. The Federal Reserve in the US has recently launched **web content**, an **education series**, and **a short overview video** that offer information and guidance.

Create operating models for cash and liquidity management

So, what happens when your treasury functions shift from a five-day week to an always-open reality? According to Beatriz Saldivar of Axletree Solutions: “RTP will provide benefits such as transparency and predictability within countries and across borders, but will also impact liquidity management, foreign exchange management, and overall treasury processes and controls in a new world where treasury operations are open 24/7/365.”[5]

Along with the benefits of RTP, organizations will face liquidity management challenges. “First, banks have to provide sufficient liquidity to instant payments services to ensure time-sensitive amounts due are processed instantly, especially outside normal banking hours,” according to Thomas Egner for Treasury Management International. “Second, this has to be done while managing their own intraday liquidity to the satisfaction of shareholders and regulators. The processing of payments through a batch-based system has so far enabled banks to have predictable liquidity flows, aiding liquidity management. With real-time payments, cash inflows and outflows become more unpredictable as they can occur at any time of day.”[6]

For you to effectively manage liquidity risk with increased payment speed, you must consider how instant payments will be integrated into your processes. Internal systems and functions that are designed around the business day and batch process will need to adapt or be replaced.

You should invest in monitoring tools that are specifically designed to help reduce cash and collateral buffers that are provisioned for business-as-usual operations, as well as stressed scenarios. With the increasing complexity of regulations, operations, processes, and unexpected disruptions, achieving efficient and low-cost cash and liquidity management at minimal risk to the company should be an integral part of your global treasury functions.

Interactive dashboards and clear communication within—and outside of—corporate treasury are key requirements for effective cash positioning.

Cash visibility

“Cash visibility” means knowing what cash the company currently has and where it’s held. It also means being able to predict what cash the company will have in the future. Cash visibility is imperative when making effective financial decisions. Armed with clear visibility over a company’s current cash position and future flows, treasurers can:

- Invest cash strategically
- Use cash management structures effectively
- Minimize debt and interest expenses
- Make better, more informed hedging decisions
- Ensure regulatory compliance with the BCBS248 framework
- Bolster corporate treasury’s reputation within the company

To satisfy both operational and regulatory requirements, you need operating models for cash and liquidity management. To successfully achieve and maintain this capability organizations need to focus on gaining greater visibility into their cash and liquidity.

Gain greater visibility into cash and liquidity

Treasurers don’t typically have access to a company’s full cash picture. Though efficient business operations require working with multiple financial services organizations across different markets, complex banking structures and sprawling geographical footprints make it difficult to achieve complete visibility into current balances and to measure the accuracy of cash forecasting.

Recognize why cash visibility is important

Companies with clear visibility into cash can invest strategically, while minimizing debt and interest expenses. Focusing on accurate visibility as a best practice increases the effectiveness of hedging and enables treasurers to reduce a company's risk exposures, while removing barriers to growth to unlock organizational value.

Conversely, a lack of clear visibility can result in numerous issues:

- Higher than necessary borrowing costs
- Poor hedging decisions based on incomplete information
- Missed key performance indicators (KPIs) and a lack of confidence in the corporate treasury organization
- Large buffers of surplus cash to absorb unforeseen expenses
- Insufficient return on cash
- Reduced intraday liquidity buffers
- Failed regulatory compliance

Achieve cash visibility with best practices

Whether a treasurer is seeking to pay down external borrowing or maximize return on investments, the first step is to know what cash is currently available. Secondly, treasurers must predict future flows and keep key stakeholders informed. Achieving true cash visibility is possible by following five key steps.

1. Understand the impact of instant payments

As new payment innovations come online from around the world, treasurers should deepen their understanding of the impact of these faster, instant payments. Treasurers might be wondering: How are these different instant payment transactions processed? According to the US Federal Reserve, treasurers might also be asking: "What do payers, payees, and their financial services providers need to do to make these kinds of payments; and why is now the right time to consider adopting some type of faster payment option?"[10]

Legacy ERP and ledger systems might lack the needed abilities to achieve complete cash visibility.

Key terms and definitions

- **BCBS248** is a set of monitoring metrics the Basel Committee on Banking Supervision (BCBS) designed to ensure that financial services organizations' funding lines are continuously available from diverse sources, and that carefully simulated contingency plans are in place to support intraday liquidity requirements in times of great industry and technology flux.[7]
- **Cash budgeting** is typically performed by an organization's financial planning and analysis (FP&A) group, and primarily looks beyond a one-year period in the future to provide guidance on free cash flow. Increasingly, the reconciliation of indirect budget-based forecasts with direct cash-flow forecasts are managed quarterly.
- **Cash positioning** focuses on the current day and often into the next five business days. The purpose is to manage daily liquidity to ensure shortfalls are covered and surpluses are concentrated to earn yield on excess cash.
- **Cash forecasting** typically extends cash positioning out anywhere from one week to one year in the future. Forecasting leverages multiple data sources to increase confidence in the projected cash balances to help drive more effective decisions.
- **Intraday liquidity** refers to "funds which can be accessed during the business day, usually to enable banks to make payments in real time."[8]
- **Intraday liquidity risk** is defined as "the risk that a bank fails to manage its intraday liquidity effectively, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties."[9]
- **Modern financial management infrastructures** are built on flexible, reliable, and secure technologies designed to power today's and tomorrow's powerful applications.

The journey towards faster payments can progress along a path towards full instant payment adoption.

Explore the world of faster payments

- Know what's trending in the world of faster and instant payments
- Know the different types of faster payments—central bank offerings (Lynx, FedNow, etc.) and commercial rail providers
- Understand how faster payments benefit your organization

Take a deeper dive

- Look further into how instant payments impact your organization
- Evaluate peer-to-peer (P2P) impact for financial institutions
- Explore the details of countries and commercial rail offerings (Lynx, FedNow, etc.)
- Understand the clearing and settlement impact

Embark on transformation

- What systems, people, and processes must change to support 24/7/365 successful operations?
- Decide how you will deliver on ISO 20022
- Consider how to expand fraud prevention
- Devise ways to Remove constrictions to speed
- Establish a ready-by date and work towards it

2. Generate cash positioning

Effective cash positioning provides predictive views into a company's cash position at any moment in the current and coming hour(s) and day(s) by consolidating multiple sources and matching actuals to forecasts (replacing "old" data in real time or near real-time) to speed up daily reconciliation. This also helps deploy cash throughout an organization more quickly and accurately. Effective cash positioning reduces idle cash and creates opportunities to earn immediate yield, while minimizing the risks to which that cash is exposed.

Confidence in the cash forecast is the difference between achieving these outcomes and only hoping to do so.

Achieving full cash visibility takes time and effort, but the rewards can be significant.

Building cash positions typically involve combining data from these sources:

- **Prior-day balance**—Automatically downloaded from banks at the start of the day
- **Intraday bank reporting**—Automatically downloaded from banks throughout the day, either at specific times or as a constant stream of data via an API, SWIFT, ETL, or other means
- **Expected payables and receivables**—Ideally sourced directly from the company's own ERP system(s) with dynamic APIs, thereby providing near-real-time data
- **Open treasury transactions (such as maturities and settlements)**—Integrated within the treasury system

After the initial step of building the cash position, it's necessary to maintain and reconcile it. Maintaining the cash position requires updating and replacing cash-flow data with more recent and accurate information via intraday updates from internal systems and banks. Reconciling the cash position involves matching the actuals to forecast flows, which is often done first thing in the morning as a part of typical treasury processes. Reconciliation helps identify and understand the unexpected. For example, if a transaction didn't occur yesterday then it may occur today; the unreconciled variance then must be rolled into the current day's position.

For many organizations, this process can be time consuming. Rules-based automation and artificial intelligence (AI) can simplify the process. AI can help increase the pace and scale at which financial services organizations can automate processes.

Forecasting, reconciliation, and back testing are key areas for applying AI. According to Ventana Research: "Continuous accounting is an approach to managing transactions recording and accounting that takes advantage of current ERP technology to streamline and restructure the accounting function; it can provide more real-time information and insight while simultaneously cutting administrative overhead."[11]

Additionally, using interactive dashboards allows cash managers to drill down through multiple levels into any component of the cash position. Dashboards can be used to view cash positions in multiple dimensions in real time by line item, bank, entity, currency, and more.

Interactive dashboards and clear communication within, and outside of, corporate treasury are key requirements for effective cash positioning.

Communication within and outside of corporate treasury is critical. The treasurer, CFO, and other finance personnel who manage subsidiaries all require cash visibility. Delivering visual and detailed, reconciled data to all areas of a finance organization is a critical outcome of daily cash positioning.

Effective cash positioning provides many benefits, including:

- Providing current, reliable, and accurate cash position information to corporate boards
- Mobilizing cash across the organization for funding and investment purposes
- Enabling cash management processes such as pooling, sweeping, and intercompany borrowing
- Optimizing interest income and expenses via better-informed borrowing and lending operations
- Reducing external borrowing by using internal cash resources effectively

3. Enhance cash and liquidity forecasting

While cash positioning can be used to predict accurate cash flows in the coming hours and days, cash forecasting looks further ahead to the coming weeks and months. Cash forecasting provides a gateway to an organization's FP&A group's cash budgeting, which typically looks forward several years. To achieve highly accurate cash forecasting, organizations need to evolve from Excel spreadsheets and other stand-alone tools that provide a limited snapshot of data. Without complete confidence in projected forecasts, the cash forecast can't support corporate treasury's goal of improving cash utilization.

Organizations should implement best practices and tools that are specifically designed to provide highly accurate, real-time cash forecasting. Effective cash forecasting provides the necessary data for corporate treasury to determine cash investments over longer maturities, secure borrowing to fund operations, and make better hedging decisions. Confidence in the cash forecast is the difference between achieving these outcomes and only hoping to do so.

Recent analyst studies from both PwC and Deloitte identified cash and liquidity risk as the treasury challenge most important to leaders.[12] This can be for many reasons, with some of the more common challenges including a scarcity of accurate data sources, ineffective methodologies, and a lack of alignment with performance metrics.

Some ways to improve the effectiveness of forecasting and monitoring include:

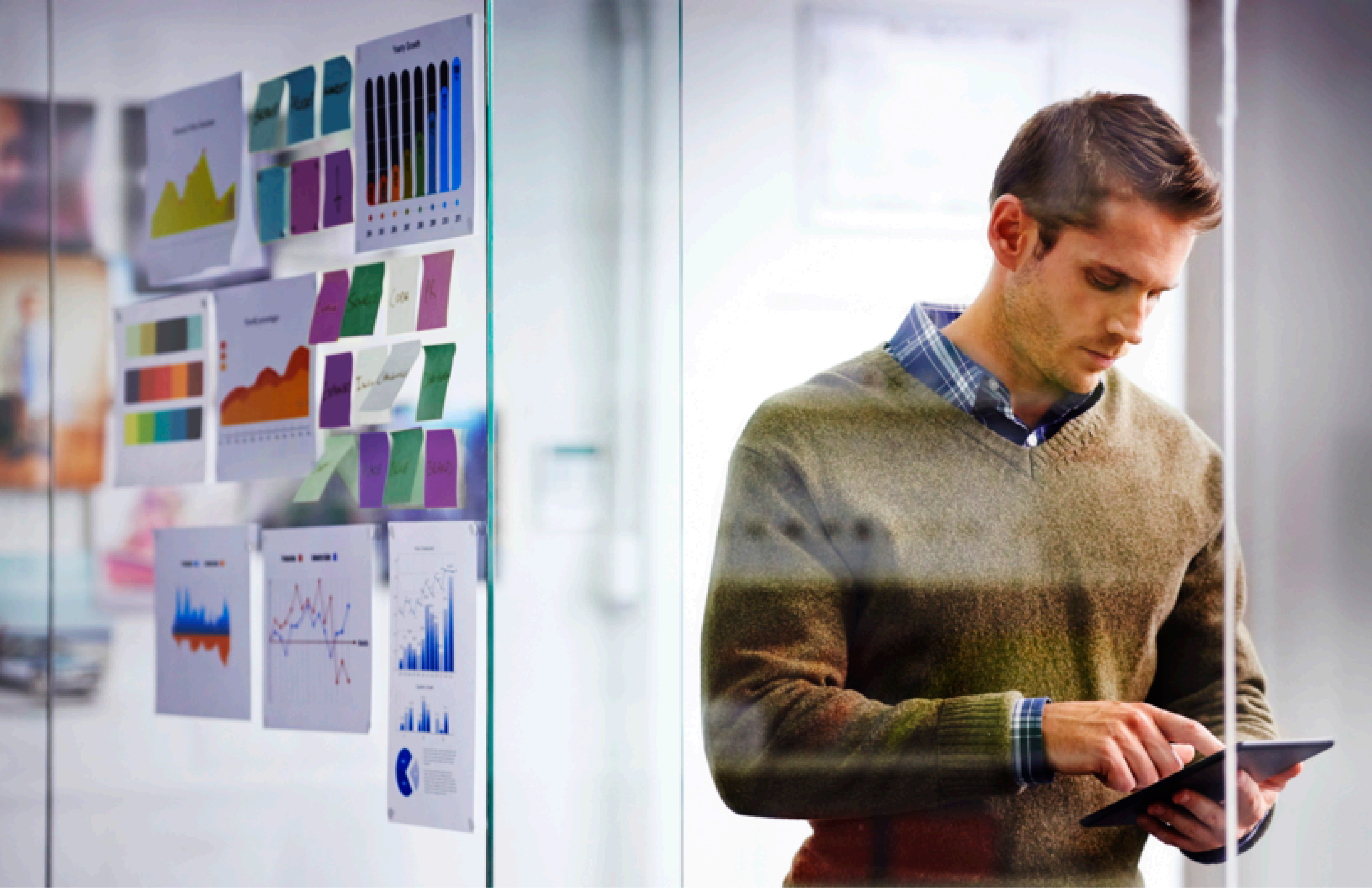
- **Collaborate with other teams**—Forecasting should incorporate data points from key sources throughout the business to facilitate effective collaboration between multiple entities, such as accounts payable, FP&A, IT, and regional controllers (who own valuable forecast data and administer systems). This level of collaboration is essential to ensure everyone involved knows what they are expected to provide—with executive oversight so that collaboration is prioritized.
- **Consolidate forecast data**—With forecast data coming from multiple physical sources—such as spreadsheets and various modules within an organization's ERP system(s)—all that data should be integrated into a single system of record so that all entities have access to the same information. While consolidating data into a single system could be an IT-intensive exercise, it would be much quicker and cost-effective to automate the integration of forecast data—eliminating the need to allocate internal IT resources.
- **Measure forecast accuracy**—The final piece of cash forecasting is to measure the accuracy of the cash forecast. Measuring forecast performance is critical to evaluating the effectiveness of each line item and the data sources. This can provide valuable insight into specific areas where cash forecasting can be improved.

  This analysis must be done at a detailed level. For example, drilling down into the data at a daily level will provide a much better analysis than measuring accuracy before and after a 90-day/13-week period or even weekly.

4. Establish intraday liquidity monitoring capabilities

Banks and financial services organizations bound by intraday liquidity regulations have an opportunity to build a stronger competitive position. According to consulting firm Oliver Wyman: "Analysis indicates that a 25–50% reduction in intraday liquidity costs is well within reach. Further, banks will also stand to benefit from optimal efficiency, improved risk management, and timely decision-making around this scarce resource."[13] There are numerous financial and non-financial benefits, as well as new technological tools that simplify these complex treasury functions.

For true cash visibility, financial services organizations need to be able to monitor all intraday activity. Analytical tools for liquidity management and real-time intraday control also provide guidance for maintaining compliance with emerging regulatory requirements.



- **Improve intraday liquidity management**—An Intraday liquidity management tool offers comprehensive visibility into an organization's settlement activity across all of its direct and indirect accounts. Analyzing balances, turnover, and transactions throughout the day provides real-time intraday insights, such as external intraday advice, EOD statements, and alerting monitors.
- **Optimize cash, collateral, and liquidity in real-time**—Securing intraday control is critical to running an efficient and compliant financial services organization. True intraday control is achieved when an organization can monitor its actual account activity, compare this against expected activity, and manage any discrepancies and risks that arise—in real time, every minute of every day. By addressing this, an organization can capture, control, and optimize its intraday cash, collateral, and liquidity positions in real time.
- **Ensure that the infrastructure is up to the task**—Successful intraday control requires tools that are designed and architected to continually process very high data volumes and provide instant visibility.
- **Comply with regulatory reporting**—It's not enough to ensure that an organization's reporting tools are compliant with global regulatory monitoring and reporting guidelines for intraday activity. Financial services organizations should regularly refresh their reporting tools to keep pace with evolving regulatory demands across the globe. These demands can come from BCBS248, the UK PRA intraday regime, the US Federal Reserve Board, or new requirements released by any number of regulators. As financial services organizations continue to come under greater scrutiny, they should develop regulatory reporting tools, process, and methods proactively.

5. Modernize the core of financial management

Many of the best practices mentioned in this paper require the use of specific digital tools. According to the ERP Advisor Group: "Legacy technology may not do what it supposed to do anymore or what you need it to do anymore. Processes change over time, businesses shift over time, and the application might not be able to track exactly what you need now, or in the future, even though it was perfect for what you needed in the past. If your legacy software isn't doing what you need it to do, it may be time to upgrade to an application that can do exactly what you need."[14]

A modern financial ERP system, however, should come with the necessary functionality already built in—or at least be part of a digital ecosystem that's designed for seamless integration with other financial tools. A modern ERP system should also provide dynamic scalability that allows businesses to adjust to changes in processing volume as demands fluctuate. Modern ERP systems must be intuitive and easy-to-use, with access to cloud services that deliver a highly resilient, fault tolerant, scalable, and secure environment that serves as the foundation for an organization's entire enterprise ecosystem.

- **ERP as a data warehouse**—Modern ERP systems go beyond simple financial capabilities, such as account entity, accounting unit, account, and project. Modern ERP systems include customizable dimensions, such as supplier, channel, market segment, and more. These systems can even provide data warehousing with near-real-time profitability and cash flow across a redesigned dimensional string.
- **A role-based user experience**—Modernizing an organization's financial management process requires tools that operate anytime, anywhere, on any device that fosters collaboration across corporate groups. A modern ERP system should also provide dashboards, reports, data visualization, and proactive analytics capabilities that work across systems to deliver information automatically based on users' specific roles and priorities.

A modern financial ERP system can transform the very core of an organization's internal financial management. It can help optimize cost efficiency and drive enterprise growth by accelerating areas such as digital transformation, robotic process automation (RPA), data visualization, and advanced analytics.

Reap the benefits of cash visibility and intraday monitoring

Achieving full cash visibility takes time and effort, but the rewards can be significant. Armed with a complete, accurate, and up-to-date picture of the current cash position and future flows, treasurers can expect to see enhancements in operations, such as:

- **Making timely and confident decisions** about activities—including investments, borrowing, cash concentration, and hedging
- **Paying down external borrowing** with a clearer view of the cash available
- **Investing strategically** with a clear picture of current and future flows
- **Reducing bank fees** by closing or combining redundant bank accounts or negotiating with banks from a position of knowledge
- **Minimizing debt and interest expenses** by making the best use of internal cash and reducing external borrowing
- **Optimizing planning** of borrowing and lending operations
- **Increasing effectiveness of hedging** by ensuring decisions are based on accurate information
- **Freeing up excess cash** by identifying tangible financial savings, optimizing and minimizing liquidity buffer requirements, and reducing intraday credit and funding costs
- **Ensuring regulatory compliance** is aligned to BCBS248 guidelines and evolving global regulation
- **Sharpening risk management** to provide unique insights to help reduce operational, credit, liquidity, and exposure risks
- **Using real-time information** to get live control over operational funding, cash, and liquidity management activities

Treasurers and other corporate financial officers must have the ability to forecast the liquidity situation on a daily basis and under various scenarios—using the most recent information possible. The value of cash held by a company can only be realized if the treasurer knows what cash is available, where it's held, and what are expected cash flows for the future.

Gain complete, real-time cash visibility and liquidity monitoring

In many parts of the world, intraday reporting happens less than twice per day. In some cases, it doesn't happen at all, meaning that daily cash positioning is largely driven by prior-day reporting with the expectation of clearings throughout the day. Modern technologies are available that address these issues by providing real-time or near-real-time data. Real-time bank reporting via APIs is changing how cash managers look to achieve instant cash visibility into accounts. Combined with real-time payments, corporate treasury can not only have real-time views into bank accounts, but also the ability to mobilize cash domestically—and eventually cross-border—within seconds.

Transforming to real-time reporting requires that corporate treasury employ the right processes and analysis to effectively manage cash information in real time.

The paradigm shift can create significant cash and treasury issues for organizations that lack modern treasury technology; while organizations that are technologically enabled are much better positioned to respond to volatility and gain a competitive advantage in the utilization and deployment of cash.

The intraday aspects of financial services organizations' liquidity strategies have become the focus of increasing attention from regulators through compliance reporting, resolution planning, stress testing, and expensive liquidity buffer requirements. Financial services organizations must understand their intraday liquidity usage and drivers and be able to optimize funding and liquidity across the organization's range of accounts, under diverse conditions.

Forward-thinking financial services organizations recognize that gaining liquidity control in real time is critical to running an efficient and compliant business, especially in this evolutionary transformation of capabilities. True liquidity control is when an organization can monitor its external account activity in real time, compare this to predicted activity, and manage any discrepancies and risks that arise.

Launch your new payments infrastructure

As our daily lives move at an increasingly quicker pace, people expect payments to move just as fast, even instantaneously. Now that the payments industry has an idea of what the initial capabilities will be, there are many steps industry participants can take to position themselves as drivers of innovation and successful builders of functionality that provide a strong foundation for innovation. A significant goal of this ongoing dialogue and interaction is to establish a strong and reliable ecosystem that drives development of instant payment capabilities across the value chain.

By following these steps, you can build true cash visibility, manage liquidity risk in real time, and be prepared for the new world of instant payments coming right around the corner.

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