The 24/7 Treasury

How the acceleration of payments will affect business/treasury management

Treasurers need to manage their business in real-time, with even greater levels of transparency and predictability. Payments are moving at ever faster rates both within countries and across borders. Real-time schemes are proliferating around the globe and clearing systems are open longer, with clearing cycles shrinking to the point of being almost instantaneous. Mobile wallets and new features such as Request for Payment (RFP) are further enriching the payments landscape. Faster payment processing and the introduction of new payment models is consistent with, and essential to, facilitating changing procurement and sales models and evolving customer demand. However, there are a variety of implications for treasurers. Treasury processes and controls need to become 'real time', but equally, new approaches to liquidity management are required as liquidity dynamics shift and accelerate.

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Open all hours?

For many businesses, the acceleration of payments may be less significant than the prospect of 24/7 settlement. Most medium and large corporations have established processes and controls for making financial, supplier and employee payments, and there may be little motivation to move to real-time payments when schedules are predictable. However, smaller enterprises and those with more constrained liquidity may value the ability to settle payments 'just in time' to coincide with incoming flows.

The bigger impact for many corporations will be the 'just in time' settlement of receivables. With markets moving to 24/7 clearing, treasurers should be prepared to receive payments at any time, including 'after hours' (a concept that will rapidly disappear) and at weekends. This has organisational, processing and liquidity implications.

Streaming bank account information

As a first, essential step, automation will become increasingly important to avoid the need for treasurers to work 24/7. In particular, information needs to be obtained more quickly and in a useable format from banks. Some treasury departments already poll their banks for intraday statements, while some banks are able to stream this data in real-time, a trend that is likely to continue in line with growing treasury demand and the advent of "open banking". There

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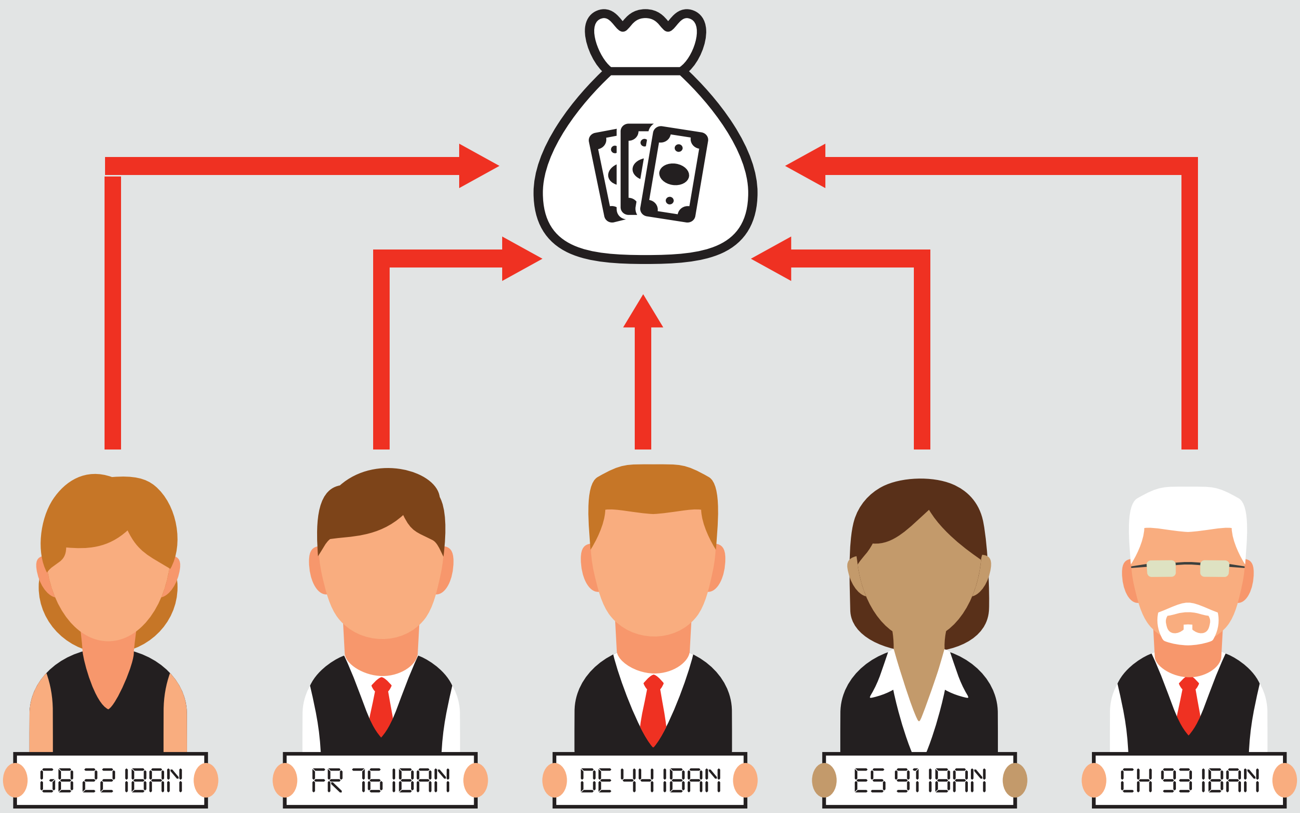
is a technology and process impact, however, as treasurers also need to be able to capture and process real-time data through their enterprise resource planning (ERP) or treasury management systems (TMS).

Virtual accounts for automated reconciliation

Internal processes also need to be faster, and more automated to post and reconcile incoming flows. This relies on prompt access to high quality, consistent information accompanying payments; indeed, the quality and timeliness of remittance information will be a higher priority issue than the timing of the actual collection for many treasurers. Virtual accounts are likely to become pervasive amongst corporations of all sizes to facilitate more rapid and automated posting and reconciliation with fewer exceptions. Virtual accounts enable companies to set up specific 'virtual' account details for each customer (client, internal entity or business line etc.) which are linked to a physical bank account. The virtual account details can then be used as reference information to automate reconciliation and inter-company account posting.

Just in time liquidity

Real-time payments and 24/7 settlement will change liquidity dynamics profoundly. As cash conversion cycles accelerate, latency in payment execution shrinks, as does the level of contingency cash buffer that needs to be held on bank accounts. Pressure on cash flow planning and forecasting may also be



Virtual Account Management (VAM)

Virtual accounts are ledger accounts that follow conventional account numbering formats (e.g., IBAN). Multiple virtual accounts (e.g., per customer, entity, product line) are mapped to a single physical account. Funds paid to each virtual account are collected into the physical account and identified for reconciliation purposes using the virtual account number. Virtual account solutions can be single or multi-currency, and are supported with reporting on both physical and virtual accounts.

reduced as working capital management becomes more efficient with liquidity working harder for the business. Liquidity issues arise in two main areas, however:

Resolving liquidity fragmentation
The shift towards 'just in time' payments and receivables, and narrower clearing cycles, makes it more difficult for treasurers to fulfil their obligation to make cash available in the right place, at the right time and in the right currency. Consequently, treasurers will also need solutions to enable them to manage cash more dynamically to avoid cash fragmentation and respond to changing liquidity patterns, including integrating FX and liquidity solutions to manage cash across currencies as well as locations.

Next generation virtual accounts (ngVA) will become more important as a means to view and mobilise liquidity. ngVAs build on the traditional advantages of virtual accounts with an additional self-service element. This enables clients to open/close virtual accounts quickly to suit their immediate needs, such as to track balances and transactions for respective customers/ entities. This is faster and more efficient than opening physical accounts and managing/reconciling them on an ongoing basis. Liquidity is automatically concentrated in real-time into the physical account that acts as the header for the virtual accounts. This approach contrasts with more complex pooling structures that are typically designed to offer same-day rather than real-time or dynamic liquidity management. When combined with the wider benefits of virtual accounts, ngVAs address liquidity fragmentation, improve transparency and predictability and support rapid execution, providing the architecture to facilitate faster liquidity management.

Dynamic liquidity management
With cash settlement taking place 24/7, the need for intraday and out of hours liquidity management emerges. Firstly, treasurers need to be able to make the most effective use of internal sources of liquidity 24/7. Secondly, investment solutions need to be dynamic and automated, with the need for wider financial markets to align more closely with the payments market on a 24/7 basis. This includes the ability to transfer liquidity across banks for investment purposes as part of an automated solution.

Ready just in time?
While various products and solutions are already available to help treasurers keep up with the accelerating pace of cash and liquidity, banks will need to combine solutions into a single, consistent client experience with a high level of automation and responsiveness to fast-changing liquidity conditions. More sophisticated data analytics and machine learning will play a key role in achieving this. The benefits could be transformational, with more efficient use of working capital, better business intelligence and forecasting, and enhanced yield on surplus cash.