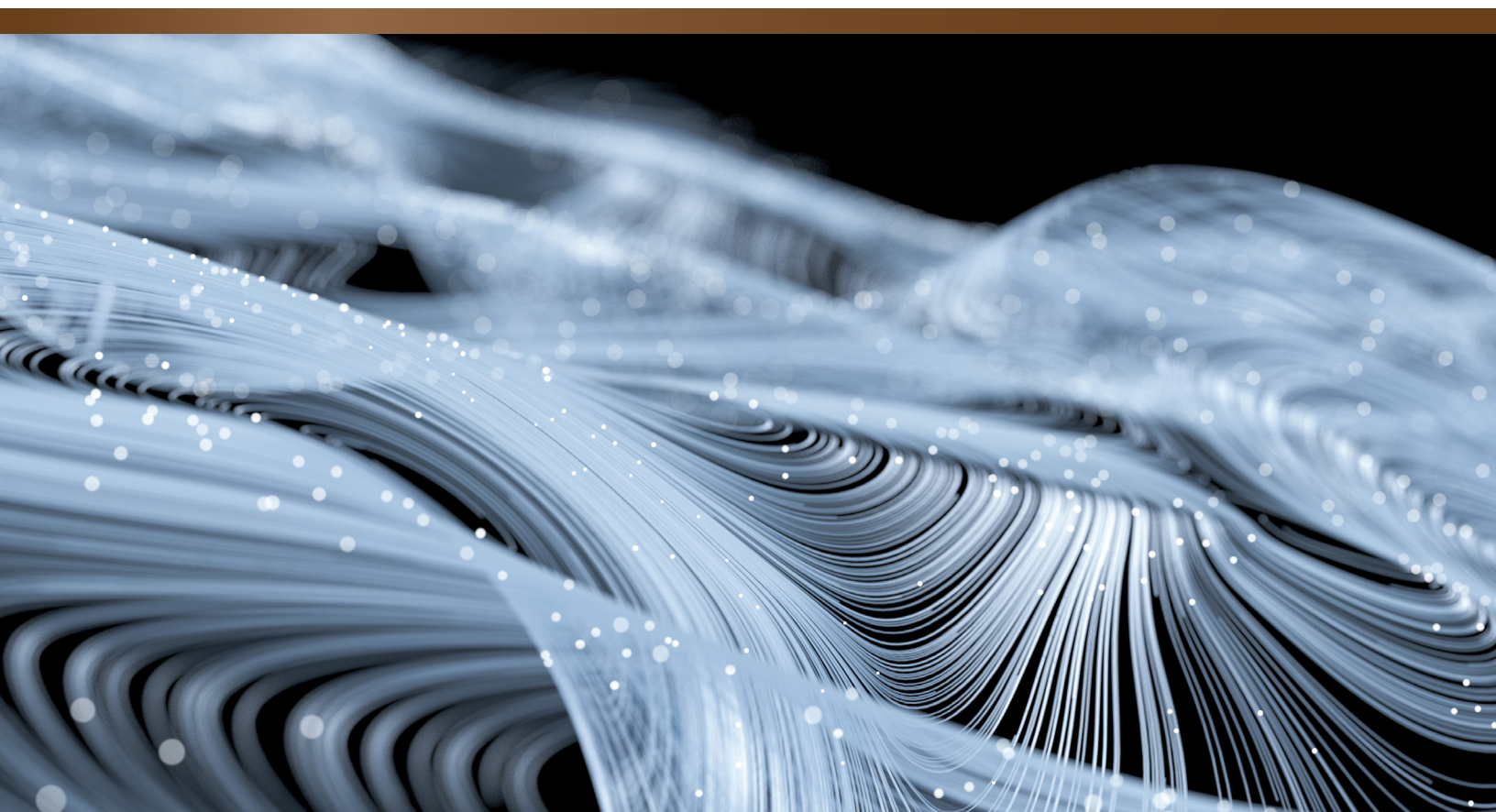


J.P.Morgan

Treasury management: Understanding your risks

A guide to help founders manage cash and mitigate risks



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Shining a light on unseen risks

Treasury management isn't always the most exciting topic, especially for founders and entrepreneurs. Most of them would rather focus on business strategy and revenue—not on finding more efficient ways to receive money or pay vendors.

But when a disruption occurs that puts treasury management at risk, it can be an existential threat to your business.

“People don't really care about treasury management until it becomes a problem,” said Alton McDowell, Co-Head of the Technology and Disruptive Commerce Group at J.P. Morgan. “Crises have a way of bringing unseen risks into the light.”

While the banking sector disruption may be the most immediate emergency companies have faced, crises can come in myriad forms—from an isolated cybersecurity breach to a widespread global pandemic. Disruptions also highlight the need to work with an institution with a panoramic view and experts who can help mitigate risks, regardless of the stage of your company.

While no one can perfectly prepare for every possible disruption, this guide examines the primary risks to treasury management functions. And it offers best practices to lessen those risks for businesses in all phases—from startups to growth companies to mature corporations.

The 5 major risks



Operational risk



Technology risk



Liquidity risk



Third-party risk



People risk

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Company profiles

As companies grow, their treasury functions typically become larger and more complex. For this guide, we provide recommendations for all businesses, with a focus on three general stages:

Startups

- No dedicated finance team
- CEO/founder manages cash
- Few automated functions

Growth companies

- Small staff focused on finance
- Same group also handles accounting
- Some electronic payments, automation

Mature corporations

- Dedicated treasury team
- Sophisticated ERP software
- Processes are mostly automated
- Variety of payment types, controls

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Operational risk



Many founders are so busy running their companies that they don't have time to focus on treasury management. Founders pay their bills and collect payments when they have time, and the process is often done manually with limited controls.

“When you first start a company, you're figuring everything out as you go,” said Victoria Albovias, Head of Corporate Treasury Consulting at J.P. Morgan. “And for treasury management, it's a lot of bubble gum and tape holding things together.”

Such an ad hoc approach is rife with operational risks. Manual processes are slow and inaccurate—and expensive to scale as your business grows. The lack of structure also can lead to widespread business breakdowns during a crisis.

Instead, founders should look toward automation to speed up processes, add controls, reduce costs and improve working capital. Digital solutions also can help keep your business running during a disruption.

Over time, companies can start hiring people to help run the back-office functions, Albovias said, which allows founders to do what they do best: grow the business.

Best practices



ALL BUSINESSES

- Leverage technology to automate processes
- Understand contingencies if automation fails
- Centralize operations
- Document processes, resiliency plans
- Establish reporting for liquidity forecasting, monitoring.



STARTUPS

- Review banking activity and evaluate cash burn weekly
- Reconcile bank accounts monthly
- Use your bank's fraud prevention services
- Require secondary review for payments



GROWTH COMPANIES

- Set policies for A/P and A/R functions
- Designate staff to run A/P, A/R functions
- Establish limits for purchasing, payments
- Position cash daily; update forecasts weekly



MATURE CORPORATIONS

- Standardize processes for A/P, A/R functions
- Consider setting up a Shared Service Center for A/P, A/R and other back-office operations
- Automate daily cash, monthly bank reconciliation

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Technology risk



When most entrepreneurs think of technology risks, they think of cyberattacks and fraud schemes. While founders certainly should pay attention to those issues, there's an equally important topic that often gets ignored: data integrity.

Because many startups outsource parts of their business operations, they often work with multiple providers. Using several different platforms can create a range of issues, including stolen or compromised data, and inconsistent and incompatible data elements. (See Page 6 for more insights on third-party risks.)

When working with multiple platforms, you should be able to answer these basic questions:

- Where is all of my data?
- Who can access the data on my team? The vendor's team?
- How is the data being protected? And what happens if there is a breach?
- What are the differences in data content across platforms?

You also run the risk of your data not being current if your providers reconcile your accounts on different schedules. "Ideally, you need a single source of truth, someplace you can go that has the most recent and accurate data," Albovias said.

Even if you keep everything in house, you might still be working on multiple platforms. This is especially true for growth companies that are acquiring other businesses; each new acquisition can lead to another technology stack.

Best practices

ALL BUSINESSES

- Automate interfaces between systems, vendors
- Take steps to limit manual data entry
- Minimize out-of-system activity
- Rationalize systems and duplicative or inconsistent data

STARTUPS

- Use bank solutions to automate processes
- Integrate more controls into daily workflow
- Vet third-party platforms for data security

GROWTH COMPANIES

- Create playbook for M&A integration
- Reduce redundancies across platforms
- Maximize banking tools to automate processes
- Explore solutions to solve any ERP issues

MATURE CORPORATIONS

- Leverage M&A playbook to cut redundancies
- Work to solve customer, vendor interface issues
- Drive real-time integration capabilities

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Liquidity risk



In a banking crisis, a company's top financial concern is how to fund operations. Without liquidity—aka access to cash—business functions will quickly shut down.

That's why founders, like individual investors, should diversify their holdings. A common approach is to put day-to-day money, or operating cash, in a few low-risk accounts at one bank. Once you're familiar with your cash cycles, you can place long-term funds, or reserve cash, into higher-yielding or investment accounts at another institution. Or you can keep the funds at the same bank in a different asset class or account type. This can help add sophistication to your treasury plans without adding too much complexity.

Anyone managing company money should cover three key points:

- **Visibility:** Make sure you can see it.
- **Control:** Make sure it's easily accessible.
- **Optimization:** Make sure you understand how it's being invested and managed.

"If you're investing part of it in a higher-earning vehicle, you should know how that investment works," said Matthew Fong, Managing Director of Innovation Economy Treasury and Payments Sales at J.P. Morgan. "In the event of a market disruption, you'll want to know what happens to your money and how you can maintain access to those funds."

There are many factors to consider, and liquidity needs vary. No matter your company's size, a banker can help create a liquidity strategy that suits your needs.

Best practices



ALL BUSINESSES

- Rationalize your bank account structures
- Automate cash positioning processes
- Know your cash position (daily, if possible)
- Limit account access to appropriate people



STARTUPS

- Audit who has access to accounts
- Use online banking tools for reconciliation, fraud prevention and forecasting



GROWTH COMPANIES

- Assess primary bank against business needs
- Separate A/R, A/P to better track transactions
- Leverage cash-sweeping mechanisms to drive efficiency and optimization
- Use positioning tools to augment forecasting



MATURE CORPORATIONS

- Continuously assess banks against business needs
- Explore cross-border structured solutions for global accounts
- Seek out ways to simplify liquidity management
- Maximize your treasury management system

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Third-party risk



Many startups use third-party vendors to help manage their operations—from payroll to marketing to legal services.

But if you're using one third-party vendor to perform a number of functions, you could be increasing your concentration risk. You're also outsourcing the responsibility to protect your business.

An all-in-one concern

Your concentration risk rises when you assign too many business functions to a single counterparty, sector or country. One small issue can cascade into a larger problem if everything is concentrated in one place.

"You may not have multiple banks," said Alton McDowell, Managing Director and Co-Head of Technology and Disruptive Commerce Group at J.P. Morgan. "But your third-party vendors might. And if one of their banks closes, then your business is also affected."

Most new companies don't have in-house procurement teams to evaluate potential vendors. But there are things startups can do to help limit their third-party risk.

"You could develop a simple questionnaire to learn more about a vendor's security protocols and resiliency plans," Fong said. "Many startups don't even scratch the surface to get more information on their vendors. You should at least dig an inch down to better understand how these companies work."

Remember: There are no right or wrong answers to your questions. Your goal is to understand your risks—and how to mitigate them—so you can make informed decisions.

Best practices



ALL BUSINESSES

- Screen all potential partners
- Use data and metrics to measure exposure
- Develop standard processes across company



STARTUPS

- Regularly vet key partners
- Use bank dual controls for payments
- Limit vendor debit access to accounts
- Monitor invoicing, customer open balances



GROWTH COMPANIES

- Establish standard terms for onboarding
- Define exception for non-standard terms
- Regularly monitor exposure to partners
- Review inherited business relationships



MATURE CORPORATIONS

- Incorporate FX rate/e-credit monitoring into onboarding
- Regularly monitor exposure to partners, vendors
- Use key metrics from ERP data, other sources

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People risk



Smaller companies, by definition, have fewer employees. Many have only one person on staff who manages cash and knows how to make and receive payments.

That can be a huge problem if that one employee is out of the office when a crisis strikes.

Ideally, you should have at least three people who can handle cash-management duties for your company. That gives your lead person a backup—and your backup gets a backup, too.

You also should have a formal contingency plan in place. This document should clearly spell out everyone's roles and responsibilities, and it should outline what to do if a disruption occurs.

"A contingency plan can help make sure your employees are ready to take action during a crisis," Fong said.

And finally, it's always wise to have contact information for a service rep at your banks and vendors. During a crisis, online portals and servers can quickly be overwhelmed. Speaking with an actual person could be the difference between a small inconvenience to your company and a full-blown halt to operations.

Best practices



ALL BUSINESSES

- Outline roles and responsibilities
- Provide appropriate tools, training
- Document contingency plans



STARTUPS

- Assign at least three people to support payments
- Establish controls within bank, online portal
- Keep calendars, contact info up to date



GROWTH COMPANIES

- Document roles, responsibilities for team
- Ensure multiple people can manage cash
- Establish KPIs to track, monitor and inform
- Increase cybersecurity, fraud training



MATURE CORPORATIONS

- Centralize common core finance functions
- Create teams for procurement, data analytics
- Use dashboards to track KPIs across company

J.P. Morgan and you

At J.P. Morgan, we know that growth needs guidance—especially through periods of market volatility.

Our Innovation Economy team understands banking for startups. With thorough onboarding and an intuitive digital experience, we can help you reduce costs, save time and make more informed decisions—allowing you to focus on growing your business.

We're here to help you unlock your company's potential and navigate whatever lies ahead.

Let's build your future together.

Talk to us

To learn more or speak directly to a banker, visit jpmorgan.com/startups

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