

China Unicom improves risk management with unique liquidity solution



Adam Smith Awards Asia

Highly Commended Winner – Best Risk Management

About

China Unicom Global Limited (China Unicom Global) is a Chinese state-owned telecommunications operator that provides voice calls, broadband and mobile data services, data communications and other related value-added services in 32 markets globally.

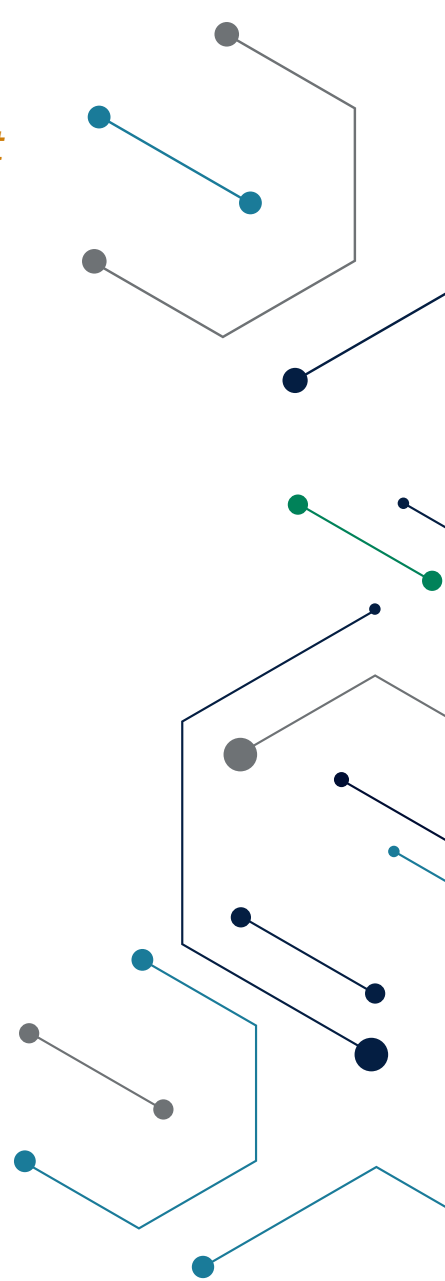
The challenge


As China Unicom Global expanded its data solutions to corporate customers globally, it became challenging to manage its growing liquidity and operational risks.

At the regional level – particularly for key markets like Hong Kong, Australia, Singapore and the U.K. – China Unicom Global’s reconciliation processes were highly inefficient. Invoices were manually matched against customer payments received via multiple channels so the process was prone to errors and yielded low invoice match rates. This not only impacted working capital efficiency, but also led to incorrect follow-up calls to customers who have already settled their bills, resulting in increased complaints.

Globally, China Unicom needed to improve visibility and control of its liquidity across markets and currencies. Its decentralized treasury model meant each subsidiary managed its own liquidity, with cash positions and funding needs manually reported on a monthly basis. This resulted in large sums of local currency balances sitting idly in domestic accounts in Australia, France, Japan, the Netherlands, Singapore, Switzerland and the U.K. where China Unicom had sizable operations, exposing it to significant currency risks.

As China Unicom Global’s offshore treasury hub, the centralized treasury center (CTC) in Hong Kong sought to replace manual in-country workflows and instil tighter control of its liquidity to optimize cash globally.





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The solution

At the regional level, China Unicom Global adopted J.P. Morgan's Virtual Reference Number (VRN) to automate reconciliations. By assigning each customer a unique VRN to make payments to, the solution facilitates quicker identification of payments and automatically maps them to the relevant customer accounts.

To improve visibility of its global liquidity, J.P. Morgan helped China Unicom Global implement a multi-entity multicurrency cash concentration structure to consolidate cash in seven major currencies and 10 entities across APAC, EMEA and North America. Its entities can draw on the pool for local currency funding, while surplus balances are automatically pooled into the CTC header account in Hong Kong daily to aggregate and hedge FX exposures, and optimize cash returns. The structure is further equipped with unique mechanisms to meet China Unicom Global's business and regional needs through:

- An EMEA header account to consolidate cash balances in Euro and USD among China Unicom's four European entities; with excess balances subsequently swept to the CTC account in Hong Kong at the end of the day via cross-border sweeps.
- An automated dual-channel funding model for its APAC and EMEA entities, where domestic entities are primarily funded through the CTC's multicurrency accounts. Additional local cash needs are further supported by an intraday automated cross-currency sweep through the entity's in-country USD account.
- An against-the-sun mechanism that facilitates cross-border payments and collections to and from the U.K. to Hong Kong without any loss of value in liquidity due to time zone differences, even for cash coming into Hong Kong after cut-off hours.
- A built-in limit control mechanism that allows China Unicom Global to assign intercompany lending limits to each operating entity.
- A structure that connects the CTC to the firm's offshore headquarter entity China Unicom (Hong Kong) to draw USD and HKD funding from the CTC as and when needed.

The company also tapped into J.P. Morgan's Virtual Account Management solution and opened virtual accounts linked to its existing physical accounts, to segregate incoming and outgoing flows. China Unicom Global also connected with the bank through APIs, allowing the firm to access valuable treasury information via its own system to reduce manual intervention and increase operational efficiency. With access to real-time transaction details, China Unicom Global can capture, manage and process data to further evaluate its exposures to credit, FX and payment risks, and determine steps to effectively manage them.

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The solution

J.P.Morgan



“Since partnering with J.P. Morgan in 2018, China Unicom Global has successfully transformed our treasury function by leveraging automation to enhance our liquidity and mitigate risks globally, to support our growing international business.”

- Meng Xin, General Manager - Finance Department, China Unicom Global Limited

J.P.Morgan

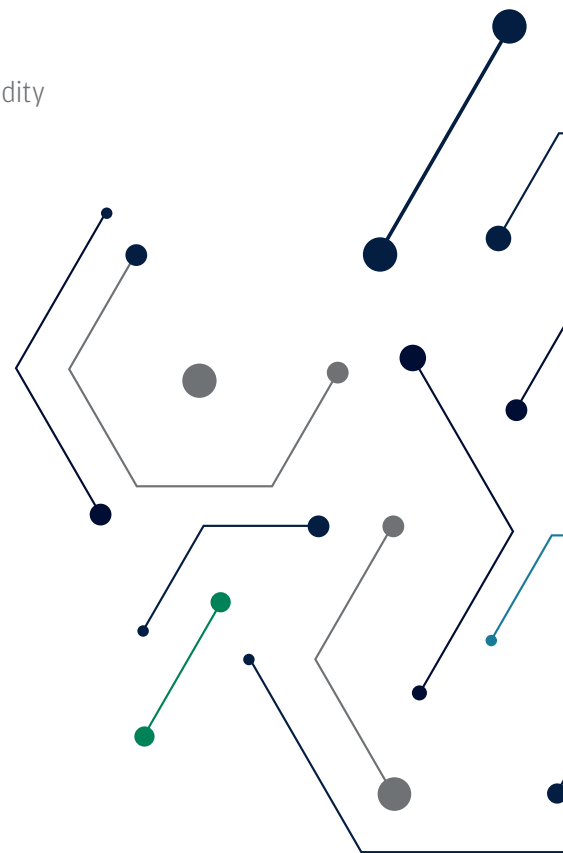
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The results

- Straight-through processing for reconciliation of incoming collections, achieving over 90% match rate when reconciling outstanding invoices against incoming payments.
- 90% reduction in FX exposures associated with non-functional currencies.
- 15% rationalization in its treasury structure by consolidating banking relationships across regions.
- Lower risk of errors by eliminating manual intervention when reconciling invoices.
- Improved transparency by accessing comprehensive real-time reports to aid cash and liquidity management decisions.
- Better risk management by assigning specific intercompany limits for each operating entity.
- Limited loss in value of funds attributed to the against-the-sun mechanism that enables cash received after cut-off times to be back-dated automatically.
- Enhanced visibility and control of global liquidity through a centralized liquidity approach and minimized operational risk.
- Improved yields as surplus funds are aggregated at the global level to maximize returns.

“As China Unicom Global continued to expand, solutions like the multi-currency cash pooling structure, virtual reference solution, virtual account management and APIs have enabled the client to streamline processes and access real-time treasury data, to improve overall treasury efficiencies - both regionally and globally.”

- Timothy Huang, Head of Corporate Banking, China, J.P. Morgan





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