Defining the Times: Concepts for Advanced Liquidity Management

by Nicholas Havoutis, Senior Vice President and Global Head of Liquidity & Investments, JPMorgan Treasury Services

“I was the best of times, it was the worst of times…”

Charles Dickens, A Tale of Two Cities

In this challenging economic environment treasurers know that unlocking liquidity is key to corporate survival. Precise working capital management is a critical component in any strategy to ensure sustained growth.

The good news is that now is the best of times for the field of liquidity management.

Financial institutions have advanced liquidity concepts to the next plateau by developing an integrated approach. Select financial service providers have aligned their cash management service with their liquidity and investment offerings. They also have evolved the concept of cash, liquidity and investment management to complement globalization.

Passing the book doesn’t mean passing the buck

Slower growth heightens the need to closely coordinate liquidity management across regions. The ‘global book’ concept suggests that each region can pass ‘the book’ – in terms of net liquidity position – to the next region, following the business day across time zones. The positive impact on Return on Capital Employed (ROCE) can be immense.

Only a handful of financial providers have the means to offer a global, integrated solution that fully satisfies these requirements. Towards this end, a trusted and experienced financial professional can provide guidance on developing efficient account structures, utilising cash concentration techniques such as pooling and sweeping and selecting investment vehicles to optimise cash flows.

Outsourcing: achieving global integration under constrained resources

Outsourcing can be a valuable component of a cohesive global treasury strategy by offering an effective way to integrate other regions. In slower growth periods, as treasurers review global strategies for increasing efficiency, outsourcing remains an attractive option for reducing cost and refocusing staff towards strategic activities.

In Europe, agency treasury arrangements are already a common practice among US multinationals and both European spin-offs and start-ups. Asia often presents a challenge to US-based treasurers who seek to optimise liquidity management across their global operations. An outsourcing solution can give access to Asian markets in Asian time zones, which is critical to an effective global treasury structure. Companies can also use an outsourcing solution to support international operations without growing treasury infrastructure in a piecemeal fashion.

Commonly outsourced treasury processes include the execution services related to intra-company loan portfolios, in-house banks, commercial paper programs, funding and investment processes, foreign exchange and hedging processes, pooling/cash concentration structures and other daily cash management processes and multilateral payment netting processes.

A global financial provider brings access to specialised expertise within regions, where local staff and global infrastructures combine to provide best practices for each varied market and jurisdiction. The financial firm should be experienced in working within varied local regulatory and tax environments.
eSolution evolution: delivering an integrated suite of services

Technology is also enabling financial firms to deliver more sophisticated cash, liquidity and investment solutions in an integrated manner, thereby better coordinating strategy across regions. Precise investment management is ideally suited to the real-time Internet environment. Internet technology enables continuous active liquidity and investment management and its integration with other cash management activities.

A select group of financial firms, including JPMorgan, are in the process of introducing portal-based solutions for applying liquidity capital across instruments of different quality, maturity, liquidity and risk profiles. Investment alternatives include bank deposits, certificates of deposit, banker acceptances, money market mutual funds, tailor-made portfolios, treasury bills and commercial paper.

The financial services industry has been exploring ways to give clients a single portal with a full toolbox of techniques for optimizing working capital efficiency. There are already certain offerings, like information reporting, where multibanking is the norm. Over time, the industry will evolve towards a market standard of a true multibank portal that comprises both cash and liquidity and investment capabilities – but it will take time. This is because of a mindset towards maintaining proprietary control and a lack of standard communication protocols. Careful risk management also necessitates an evolutionary and cautious approach.

Treasury Readiness: Ready, Set, Grow

The present economic climate necessitates that treasurers maintain a heightened vigilance in safeguarding the financial well-being of their firms. There is a danger that corporate failures could be a counter force to any emerging trend towards recovery. How can a corporate treasury position itself at a time for crisis? How can transactions be effectively processed? If a vital link collapses, can geographically separated operations stay connected to coordinate working capital management?

Again, this presents an opportunity for treasurers to review their own contingency procedures and those of their financial providers. JPMorgan has been working on a concept of ‘Treasury Readiness’ to help clients ensure they have the proper contingency procedures in place to withstand any crisis.

In essence, disaster recovery planning is a function of risk management. Here too banks are well equipped to support clients by sharing knowledge and providing tools. For example, JPMorgan’s operational risk management solution, HorizonSM, helps management assess risks, whether actions are underway to address concerns, and what level of risk is acceptable. Contingency planning is an important element of this tool. Horizon makes operational risk management a series of fact-based business decisions for achieving the right controls.

The tool approaches risk management from three angles. First, self-assessment enables individuals departments to test their control procedures against established template, rate their own level of compliance, develop action plans and monitor progress. Next, auditors can also conduct testing. Finally, key performance indicators act as a control by indicating how well an area tested against a business continuity plan.

Making working capital work for the bottom line

With contingency concerns addressed, treasurers can focus on leveraging the new level of integrated cash, liquidity and investment management solution that financial providers are offering.

Treasurers who make a persistent effort to optimise working capital can positively impact Economic Value Added (EVA). Working capital optimization affects both a company’s P&L and balance sheet, reducing expense and lowering assets, respectively. Both impact ROCE. The best practices become benchmarks and attract premium multiples in stock market valuations.

Although today’s economic climate remains a challenge, corporate treasurers can employ the latest liquidity and investment management concepts and tools that financial firms are now offering. In so doing, treasurers can seize the day by positioning their companies for continued success tomorrow.

JPMorgan Treasury Services

JPMorgan Treasury Services (www.jpmorgan.com/ts) is a full-service provider of innovative treasury, cash management, liquidity, trade finance, information and e-commerce solutions to corporations, financial services companies and government entities worldwide. As a leader in U.S. Dollar and cross-border payments, JPMorgan Treasury Services processes as much as $1.9 trillion in U.S. Dollar wire payments daily. JPMorgan Treasury Services delivers the strength of a global investment banking powerhouse, along with the personal touch and best in-country expertise of the finest regional banks worldwide.

Nicholas Havoutis
Senior Vice President and Global Head of Liquidity & Investments, JPMorgan Treasury Services

Nicholas Havoutis is a Senior Vice President and Global Head of Liquidity & Investments for JPMorgan Treasury Services. He is responsible for Liquidity & Investments for JPMorgan Treasury Services. He is responsible for Liquidity & Investments for JPMorgan Treasury Services.