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Companies keep a close eye on their money

M Corey Goldman
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Gone are the days when sticking money in the bank and assuming it would be there and available tomorrow was a given. Knowing where your cash is, ensuring it is not at risk and that it is available to be moved around on command is the priority today.

In the modern age of payment flows in multiple currencies, mitigating risk and ensuring cash reserves are there when needed and being managed effectively has become paramount, even more so in the wake of last autumn's market meltdown.

With worst-case scenarios having become reality over the past few months, chief investment officers and treasurers, from multinational retailers and manufacturers to hedge fund operators, are re-examining where their firm's money is, how it is being overseen, how safe it is and what kind of liquidity it offers, not to mention what kind of risk it is exposed to in the whipsaw world of foreign exchange.

Significantly, larger multinational corporations and asset management firms are doing what a few months ago many would have thought as slight overkill: hedging their bets by ensuring their cash is sitting with multiple banks and counterparties – in the event one of them fails – and looking to different methods to help mitigate any impact of foreign exchange exposure.



Pauline Modjeski, chief executive of adviser Chicago-based Horizon Cash Management, said: "There is no such thing anymore as taking for granted where your assets are, particularly when it comes to cash. The change is that it's about safety and security first, and returns second."

In simpler, less global and less connected times, cash management was a fairly straightforward concept, not dissimilar to a current account. The money coming in was in cash, and sometimes cheques, while the money going out was generally cleared in the same fashion.

Pauline Modjeski:
"Safety, security first."

In today's electronic, multi-currency derivatives-dominated world, that is a whimsical concept. Measuring profit and loss, managing working capital and reserves in numerous currencies while at the same time ensuring that cash is protected and available has become a lot more complex.

Many companies are being forced to re-evaluate their cash management practices, including which banks they deal with, how they receive payment for goods and services and under what terms, as credit lines once considered a given are scaled back or shut off.

FXall, which provides an electronic foreign exchange trading platform as well as cash management services to 800 multinational companies and institutions, has seen an increase in how clients oversee and use their cash holdings, as well as how they check and double-check the counterparties they deal with in foreign exchange transactions.

Managing director Mark Warms said: "At this stage, no one wants to put their money with one bank, one counterparty or in one instrument – they want it to be spread out. Many clients have been looking to expand the number of transactional relationships they have. Just like in the money markets, they want to ensure the counterparties they are trading with are creditworthy."

Being aware of risks – of the banks holding your cash, of changes to loan facilities as well as compliance, controls and general visibility have also become paramount, according to Warms. He said: "We are also dealing with clients who are trading millions of dollars a month or quarter and need controls, compliance and are looking to hedge their assets."

Being able to adapt to the "marketisation" of exchange rates and interest rates has posed new challenges to financial and risk management – ensuring effective control over risks brought on by exchange rate and interest rate fluctuations.

Andrew Woods, group vice-president at SunGard's global treasury solutions group SunGard AvantGard, said there had been a significant change in how clients manage their risk and how they use it, particularly with respect to liquidity. He said: "Cash visibility is more important than ever. One of the primary concerns has quickly become that every last cent and dollar of cash in the organisation is utilised and visible."

Indeed, implementing sweeping mechanisms and in-house banking structures to allow companies to manage their cash more efficiently, as well as reconciling distant bank accounts more regularly, gives the chief investment officer or treasurer visibility of where his or her cash is, according to Woods.

He said: "It was taken for granted that the bank would renew your facility for five years, and now that is not being taken for granted – it could be renewed with higher fees, higher restrictions – clients are looking for ways to rely less on traditional forms of liquidity."

For companies, the tough part has been not only getting financing arrangements for assets such as receivables, but also ensuring visibility of those assets at all times. Another difficulty has been foreign exchange exposure, and problems in getting liquidity on certain kinds of hedging transactions that smooth out what a company might need to pay for foreign currency transactions.

In the UK, in particular, times have been tough as firms paying out sterling for dollars and other currencies have found their costs have increased exponentially in light of sterling's rapid decline.

Michael Guralnick, Citigroup's global head of client sales management, treasury and trade solutions, agreed that the biggest change in the past six months has been demand for liquidity and transparency – knowing where the cash is at all times and having access to it.