

INSIGHTS

Optimising cash and liquidity in the new world

By Tarek El-Yafi, Head of Cash Management Sales for the Americas
Victor Penna, Global Head of the Treasury Solutions Team
Marion Reuter, Regional Head of Transaction Banking Sales in Europe

Sharing insights and experiences on managing cash and liquidity has never been more important given the personal and professional challenges that we have all faced during the crisis. Despite current and future uncertainty, treasurers have proved resourceful, proactive and often pre-emptive in supporting their organisations through the crisis, allowing them to think ahead to a new post-crisis cash and liquidity environment.

A universal challenge

The crisis has obviously affected companies differently depending on their industry, geography and organisational readiness. Some, such as airlines, saw an immediate demand shock, and quickly moved into survival mode. Some categories of fast-moving consumer goods, pharma and tech companies saw only a moderate impact, apart from the need to accelerate their adoption of digital business models. For many industrial and service-based companies, the impact is not yet clear, and much will depend on the degree and pace of recovery. Whether the initial impact has been positive, negative or still unknown, every company has had to deal with very different cash and liquidity dynamics than in the past, creating new challenges and points of friction.

An early treasury response

Once companies had ensured the health and safety of employees, customers and stakeholders by implementing business continuity plans, they turned to the financial impact of the crisis. While the global financial crisis of 2008-9 was very different to the current pandemic, treasurers' experience of the earlier crisis meant that they were ready to act early. Some had already implemented crisis liquidity plans before governments announced lockdown or quarantine conditions, and we saw a 'flight to quality' with companies moving excess liquidity to highly rated banks. This created some market dislocation, however, as other banks struggled to access liquidity, resulting in higher interest rates in the short term. Furthermore, given that hedging becomes more expensive during a crisis, many treasurers hedged early.

Treasurers looked across their funding portfolio to leverage existing sources of liquidity, such as bank facilities, to build up cash buffers to support the business through a crisis of unpredictable scale and duration. They extended liquidity structures to include additional countries wherever possible to unlock in-house cash to fund business units across the group. As treasurers modelled different scenarios to understand potential liquidity implications, they started to explore potential new sources of liquidity such as increased bank limits, a trend we saw particularly amongst European treasurers, and accessing the capital markets, more commonly amongst US treasurers. Treasurers set up or extended accounts payable and receivables financing programmes, with a view to increasing supply chain resilience whilst optimising working capital, and accessed government stimulus schemes where appropriate, although in some cases, such as the Fed's Commercial Paper Funding Facilities, they found that rates were less attractive than other forms of funding.

Consequently, when the crisis started to deepen, and liquidity dried up, initially in the commercial paper markets, many treasurers had already positioned their business to weather the storm. Even so, two thirds of clients we asked in a recent poll said they had experienced liquidity challenges during the early stages of the crisis. Despite the difficulties, however, few treasurers had to change their liquidity or investment management policies in response to the crisis. Those that did need to flex policies generally aimed to increase target cash buffers and rebalance investment priorities in favour of liquidity and security over yield.

Preparing for unpredictability

As government funding programmes came into effect, markets started to normalise, and we saw clients moving from crisis management to a focus on longer-term resilience. Treasurers started to focus on two

main areas, the first of which was trapped cash. Having ensured access to sufficient levels of liquidity, the next priority was to make sure it is available where and when they need it. This is particularly difficult in challenging or restricted markets that are outside regional or global cash pools. As one treasurer noted, "There is lots of cash down the back of the sofa if you look for it, but getting it to where you need it is much harder."

The second priority has been digitisation. As business continuity plans were activated and employees moved to homeworking, treasurers rapidly shifted from manual processes, such as wet signatures, to digital signatures, processes and controls wherever possible. However, the focus on digitisation extends beyond companies' internal operations, such as treasury, and impacts on their entire business model. This includes the way that companies engage with their suppliers and customers, how they purchase and sell, and how they pay and collect. For example, the crisis has prompted a rapid move away from manual payments such as cash and checks, so companies quickly needed to adapt, and embrace digital engagement, payment and collection models at pace.

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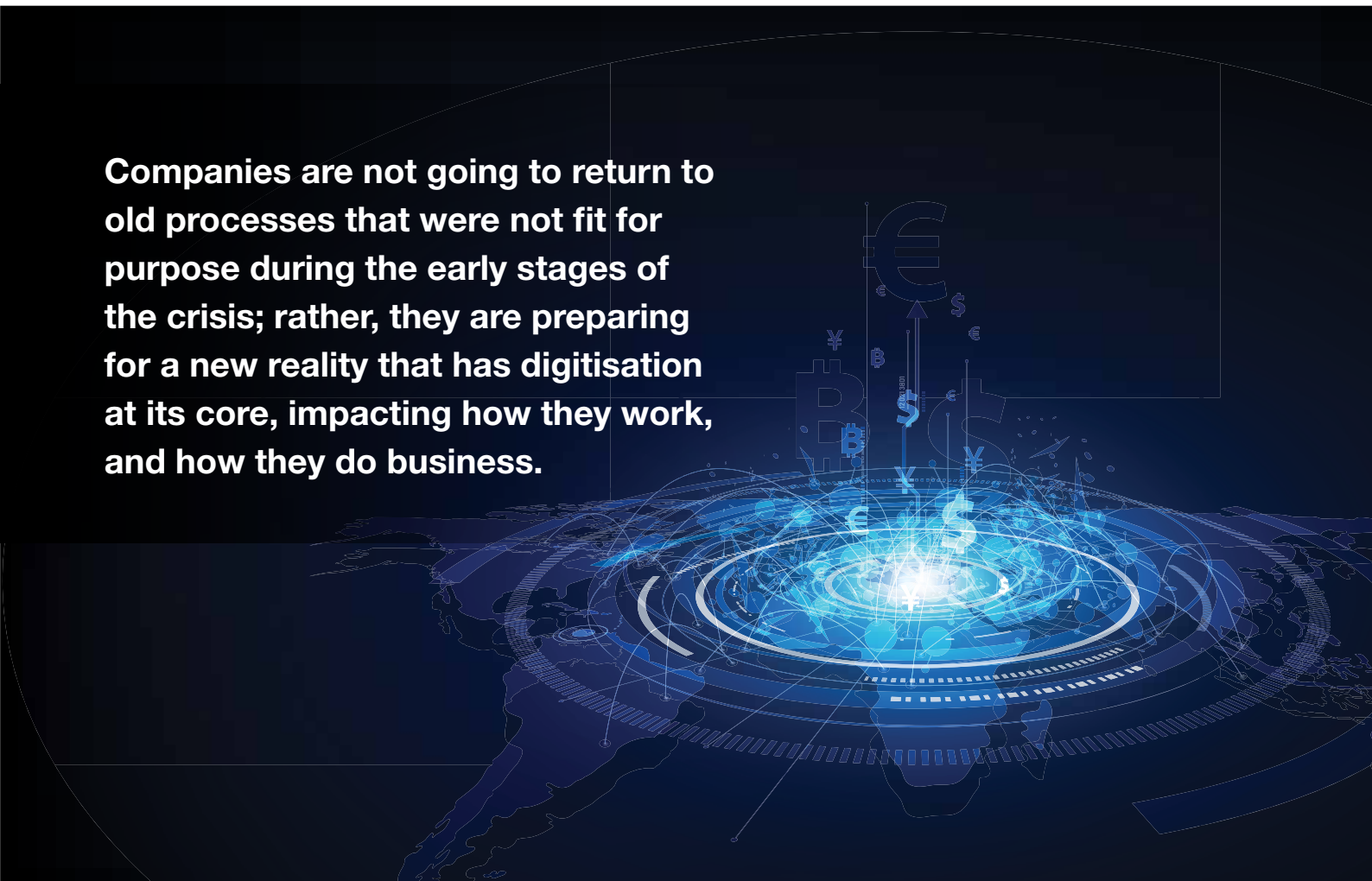
Post-crisis cash and liquidity management

Companies are not going to return to old processes that were not fit for purpose during the early stages of the crisis; rather, they are preparing for a new reality that has digitisation at its core, impacting how they work, and how they do business. Having ensured that they could conduct their day-to-day treasury business without disruption, clients have started accelerating their digitisation plans, including finalising the move away from manual processes, developing greater automation, such as the use of robotic processing automation (RPA), and building better data analytics. Treasurers are also looking at the way they deploy their technology to allow greater flexibility. For example, many are embracing cloud-based technology to enable efficient homeworking, and help counter the growing cyberthreat effectively.

Treasury also has a vital role to play in supporting the company's wider digital agenda. For example, treasurers can help to ensure that the company can support

digital payment and collection methods seamlessly to enhance the customer experience, analyse changing cash flow dynamics and help streamline and accelerate supply chains. From a liquidity standpoint, treasurers are shifting from "just in time" liquidity, which has characterised many companies' approach in recent years, to "just in case". Cash buffers are likely to remain at record levels, and treasurers are expanding their scenario analysis capabilities by stress testing the potential impact of extreme and seemingly unlikely scenarios. Based on the results of these stress tests, treasurers need to consider how they would fund potential liquidity needs and prepare accordingly. Treasury has already proved to be at the forefront of business continuity and transformation during the crisis; as we move post-crisis, this role will be as important as ever.

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