On-time treasury: is your liquidity always on?

Higher interest rates have brought liquidity structures back into the spotlight. Although the fundamental goals of liquidity management don't change rapidly, the appeal of on-demand applications and increasing pace of treasury decisions necessitate fresh strategies. Are liquidity structures equipped to handle the degree of automation and integration required by new data-driven, always-on commerce?

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Yield optimization through liquidity structures is one of the most straightforward ways for treasurers to affect the bottom line. However, this has been about pinching pennies and avoiding negative interest rates for the last several years. In 2022 that all changed. For the past year, many treasurers have been focused on navigating the rapid interest rate rise in western economies.

This new, or rather more traditional, environment brings the basic objectives of cash concentration and liquidity management into sharper focus. With higher interest rates, the opportunity cost of excess cash and overdrafts increases, and internal funding becomes more valuable. In this new light, leveraging data and technology to rapidly and automatically position cash to improve efficiency will be even more important.

In our last article in this series, we discussed the role of liquidity structures in highly automated, on-time treasury environments. Physical accounts are the backbone of daily treasury processes and data, yet cash positioning involves an inherent level of uncertainty that leads to costly buffers. Integrated and automated pooling structures reduce this reliance, improving confidence and making cash more efficient.

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This ability to support treasury automation will drive further changes in liquidity structures. As treasurers deal with more real-time payments, on-demand data, digital commerce, and a faster pace of decision-making, visibility, and instant cash control will be a top priority. It is true these concepts aren't new, but only a higher degree of speed, integration and efficiency will support and accelerate the levels of automation in truly digital, on-time treasuries.

Key takeaways

- The coming year will see an increased focus on optimizing liquidity structures as interest rates "normalize."
- As the pace of treasury decision-making increases, integration of account data to improve cash visibility is a priority.
- Tangible-use cases for virtual accounts are maturing, and uptake in the U.S. will increase given the benefits of core data and automated cash pooling.
- Liquidity structures have the potential to transform operational processes with the right combination of capabilities and the right global bank.

Visibility means integrated data that underpins decision-making

Visibility of cash is often the most critical objective for a treasury. For smaller or less cash-sensitive companies, this is the beginning of the cost and control benefits of centralization. For larger, more complex firms, the ultimate objective often includes regional liquidity pools that feed into a global overlay, allowing cash to move with the sun and optimize tax outcomes.

Ultimately, this visibility of cash is about integrating data for improved accuracy and speed of decision-making that flows from the account structure backbone. Therefore, automating and integrating this data flow into finance and treasury systems on a nearly real-time basis is a top priority for many larger organizations. This accounts for the burgeoning interest in more immediate data through application programming interfaces (APIs) and intraday balance and transaction messaging that facilitate active management of liquidity through automated business rules.

As a technology backbone, changing account structures and account data flows can be a challenge with knock-on impacts across many treasury processes. However, adapting to integrate cash position data is critical to the higher level of automation that on-demand and on-time applications are driving. Decisions based on stale data don't yield the level of visibility required by treasurers or allow for the inclusion of additional data that many systems are now ingesting for more informed decision-making.

A growing opportunity to let data drive the backbone of accounts

Virtual accounts and virtual pooling are technologies that offer real opportunities to transform the basic account and put data at the center of the process. They offer higher levels of automated information without additional account costs and administration. However, while this technology has been around for some time, some misconceptions have limited uptake.

Many expected this account structure to be a solution to the "know your customer" (KYC) administrative burden, which often is not the case. The cost benefits of the business case also need to be carefully considered against the internal cost of adapting and improving processes and systems in readiness for higher levels of automation. Unfortunately, as is often the case with early innovation, virtual accounts may not have provided the quick savings they were sold on.

Nevertheless, value-adding applications have become more mature. A clear business case for virtual accounts exists where they support a payments or receivables "on behalf of" (OBO) structure. They also increasingly offer more options compared to standard pooling structures in terms of locations and currencies.

U.S. multinationals are now also pushing the boundaries of in-house bank and virtual account structures. In the U.S., much segregation is still achieved through duplicate accounts for payroll, payables and receivables. Yet, virtual accounts offer a simpler, lower-cost and automated data flow alternative, particularly within a single legal entity. At the same time, virtual accounts effectively automate the immediate consolidation of cash in the header account. This is an example of meeting a need where and when it is needed in a specific business application, which is the objective of an on-time treasury.

Automating operational processes with integrated technologies

The mature, tangible application of virtual accounts is just one example of how newer technologies can transform the account backbone of treasury processes. With a truly global liquidity bank, there are an increasing number of process-specific technology combinations that are transforming treasury operations.

One example is the payroll process — a critical process that requires certainty and can be complicated in centralized payroll teams managing multiple legal entities and countries. In a standard process, multiple currency payroll accounts will be funded, after which payroll files will initiate payments across these accounts. Bank of America has created a solution combining virtual accounts, automated foreign exchange and sweeps to reverse the flow of data. In this solution, a single payroll file, including multiple currencies, initiates a pull of funds from multiple legal entity master accounts to completely automate the process, eliminate the need for buffer funds and segregate reporting.

Keeping up with best practice to harmonize technology investment

As treasury technology advances, so do the opportunities for liquidity and bank account structures that are at the heart of decision-making and cost savings. However, integration and automation are fundamental objectives that take time and a strategy to work harmoniously with the broader treasury digitization. There is no point in investing in API data that feeds a manual cash positioning process. So, liquidity solutions also need to be customized and process-specific to automate both bottom-up and top-down liquidity needs — solving a specific business requirement when needed.

Wherever you are in the process of digitizing your treasury and account structures, Bank of America can help you look across the full spectrum of technologies to enhance the integration of data flows, optimize cash positioning globally or transform operational processes. We take best practices and apply them to unique situations. In a faster-paced, on-time world, liquidity needs to be ready at a moment's notice — always on, integrated and automated.

This series of articles and podcasts will highlight the key misconceptions and opportunities of on-time treasury. We trust you will find this frank approach refreshing. Speak to a Bank of America representative to understand our practical approach to on-time treasury, led by our treasury advisory group.

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