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3 Steps to Gaining Clearer Cash Visibility

A KYRIBA QUICK REFERENCE GUIDE

Introduction

Cash is king — but the value of cash held by the company can only be realized if the treasurer knows what cash is available, where it is held and what flows are expected in the future.

However, all too often, treasurers do not have access to the company's full cash picture. There are many good reasons for working with multiple banks across different markets, but complex banking structures and sprawling geographical footprints can make it difficult to achieve complete visibility into current balances, nevermind measuring the accuracy of cash forecasting.

Luckily, achieving full visibility over cash is not an insurmountable goal. This reference guide outlines the steps treasurers can take to gain full visibility over their cash, from gaining a clear view of current bank accounts to increasing the accuracy of the cash forecast.

More than a quarter of global cash is not visible to corporate treasury on a daily basis.

Source: PwC's 2019 Global Treasury Benchmarking Survey

What is cash visibility?

Cash visibility is critical to making effective decisions. Armed with clear visibility over the company's current cash position and future flows, treasurers can:

- Invest cash strategically
- Use cash management structures effectively
- Minimize debt and interest expense
- Make better informed hedging decisions
- Reduce bank fees
- Bolster treasury's reputation within the organization

Key vocabulary

Cash visibility means knowing what cash the company currently has and where it is held. It also means being able to predict what cash the company will have in the future.

Cash budgeting, generally performed by FP&A, is more focused beyond one year and has an increased emphasis on free, cash-flow guidance. The reconciliation of indirect budget-based forecasts with direct cash flow forecasts are increasingly managed quarterly.

Cash positioning is concerned with today and often the next five business days. The purpose is to manage daily liquidity to ensure shortfalls are covered and surpluses are concentrated to earn some yield on excess cash.

Cash forecasting typically extends cash positioning with horizons anywhere from one week to one year. Forecasting leverages multiple data sources to increase confidence in the projected cash balances so that better cash decisions can be made.

Why is cash visibility important?

Cash visibility is the lifeblood of any organization. A company that has clear visibility can invest cash strategically while minimizing debt and interest expenses. Accurate visibility also increases the effectiveness of hedging and enables the treasurer to reduce the company's risk exposures while removing barriers to growth to unlock organizational value.

Conversely, a lack of clear visibility can result in numerous issues, including:

- Large buffer of surplus cash to absorb unforeseen expenses
- Insufficient return on cash
- Higher than necessary borrowing costs
- Unnecessary bank fees and costs
- Poor hedging decisions based on incomplete information
- Missed KPIs and a lack of confidence in treasury

Unreliable cash visibility and forecasting is the treasury issue that causes CFOs the most potential concern.

Source: November 2018 CFO Publishing survey, "3 Key Areas Where CFOs Say Treasurers Need to be More Strategic."

"The top benefits of using Kyriba are the visibility that it provides, the timeliness with which it provides that visibility, and the ease of use, in that it provides it all in one simple one-stop shop."

TRISH FISHER,
Director, Treasury Operations,
WeWork

The path to visibility

Whether the treasurer is seeking to pay down external borrowing or maximize return on investments, the first step is to know what cash is currently available. But that's not all, treasurers also need to be able to predict future flows and keep the right people informed.

Achieving cash visibility is possible by following three steps:

Step 1: Automate bank connectivity

Harnessing various connectivity methods to access data from banks in an automated way.

Step 2: Generate cash positioning

Accurately predict cash flows over the coming hours and days, and match actuals to forecasts to speed up daily reconciliation and cash application.

Step 3: Enhance cash forecasting

Accurately predict cash flows over a longer time horizon to optimize the mobility of global cash.

Step 1: Automate bank connectivity

Visibility over multiple accounts requires automated bank connectivity. In practice, this is not always straightforward: PwC's 2019 Global Treasury Benchmarking Survey cites the challenges of finding and implementing the right bank connectivity solutions as a key reason why companies lack visibility into more than a quarter of their global cash.

On the surface, bank connectivity is easy, so long as treasury teams prioritize the following:

1. **Security**
2. **Automation**
3. **Cost**

There are a variety of connectivity options to deliver security, automation and cost objectives. Yet, not all connectivity options are alike. Bank connectivity comes in a number of different forms, including:

- Host-to-host solutions, such as FTP or, more recently, APIs
- Country-specific protocols such as EBICS, Editran, Zengin and more
- SWIFT connectivity solutions, which can range from MT Concentrator (a shared BIC) to SWIFT's Alliance Lite2 hybrid model and fully managed service bureaus

The ideal connectivity solution for an organization will actually depend on factors such as bank and payment transaction volumes, bank account structures, and the location of company banks. These characteristics — in combination with what technologies the banks can (and prefer) to support — will drive the ideal connectivity choices.

In practice, a combination of connectivity methods is likely the best solution to optimize costs while maintaining automation and security. Without utilizing varying connectivity methods, the company may spend more than necessary and potentially sacrifice information transparency.

While managing multiple connectivity methods on your own may seem complex, connectivity-as-a-service models such as Kyriba's Active Liquidity Network, simplify bank connectivity by taking care of everything — building connections, monitoring availability, evolving to new technology like APIs, dealing with SWIFT; and eliminating the need for internal IT resources.

Step 2: Generate cash positions

The goal of cash positioning is to establish a real-time view of cash at any point in time and to be able to reconcile prior-day forecasts to enable the deployment of cash throughout the organization more quickly and accurately. Effective cash positioning reduces idle cash, creating opportunities to earn immediate yield while providing certainty over risk exposures that cash is exposed to.

As a process, cash positioning involves gaining a real-time view of the company's cash position at any moment in the current day(s) by consolidating a number of different sources and replacing old data with more up-to-date information.

Within treasury technology, building the cash position typically involves combining a number of data sources:

- **Prior-day balance —** automatically downloaded from banks at the start of the day
- **Current-day bank reporting —** automatically downloaded from banks throughout the day, either at specific times (e.g., 1st or 2nd presentment) or as a constant stream of data via an API
- **Expected payables and receivables —** ideally sourced directly from the organization's ERP(s)
- **Open treasury transactions, such as maturities or settlements —** which are integrated within the treasury system

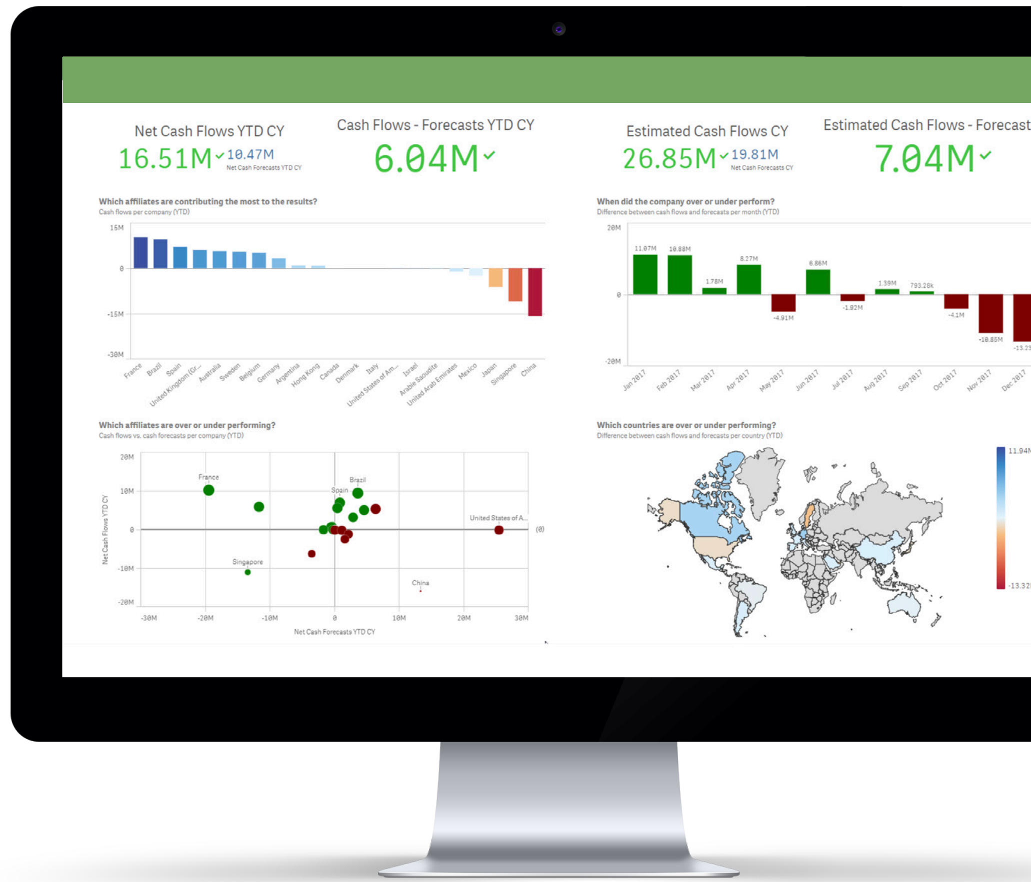
Building a cash position is just the start. After building a cash position, it is then necessary to maintain and reconcile it.

a) Maintaining the cash position involves updating and replacing cash flow data with more accurate information via intra-day updates from internal systems and banks.

b) Reconciliation of the cash position is the matching of actuals to forecast flows, which is often done first thing in the morning as a part of typical treasury processes. The goal is to identify and understand surprises — for example, if a transaction did not happen yesterday then it may happen today, meaning the unreconciled variance needs to be rolled into today's position. For many organizations, this process can be time consuming, so rules-based automation or artificial intelligence can be introduced to simplify the process.

Key requirements for cash positioning include interactive dashboards and clear communication within — and outside of - the treasury organizations:

a) Interactive dashboards enable cash managers to drill down through multiple levels into any component of the cash position. Positions should be viewable by multiple dimensions in real-time by line item, bank, entity, currency, etc.



b) Communication within and outside of treasury is critical. The treasurer, CFO and finance personnel managing subsidiaries all require cash visibility, so delivering visual and detailed reconciled cash positions is a critical outcome of daily cash positioning.

Being effective at cash positioning leads to numerous benefits for the organization, such as:

- Keeping the board up to date with reliable and accurate cash position information
- Mobilizing cash across the organization for funding and investment purposes
- Enabling cash management processes such as pooling, sweeping and intercompany borrowing
- Optimizing interest income and expense via better informed borrowing and lending operations
- Reducing external borrowing by using internal cash resources effectively

Step 3: Enhance cash forecasting

While cash positioning can be used to predict cash flows in the coming hours and days, cash forecasting looks further ahead to the coming weeks and months. Cash forecasting also provides a gateway to FP&A's cash budgeting, which typically looks forward several years.

Cash forecasting must be accurate to be effective. Without complete confidence in projected forecasts, the cash forecast cannot support treasury in improving cash utilization. Cash forecasting is needed to help treasury invest cash over longer maturities, secure borrowing to fund operations and make more effective hedging decisions. And confidence in the cash forecast is the difference between achieving these outcomes and hoping to do so.

So why do so many companies struggle to achieve an accurate forecast? Common challenges include a lack of accurate data sources, ineffective methodologies and a lack of alignment with performance metrics. If a forecast isn't reliable, treasury is unable to trust it and therefore cannot use the cash forecast to make critical decisions.

Since forecast accuracy is so important, the following steps are recommended to improve the effectiveness of forecasting:

Find the data: Collaborating with other teams

Forecasting incorporates key data points from elsewhere in the business so that effective collaboration can be administered between AP, FP&A, IT and regional controllers who own valuable forecasts data and/or administer systems to enhance forecast visibility. This collaboration is essential in making sure everyone involved knows what they are expected to provide with executive oversight to ensure that collaboration is prioritized.

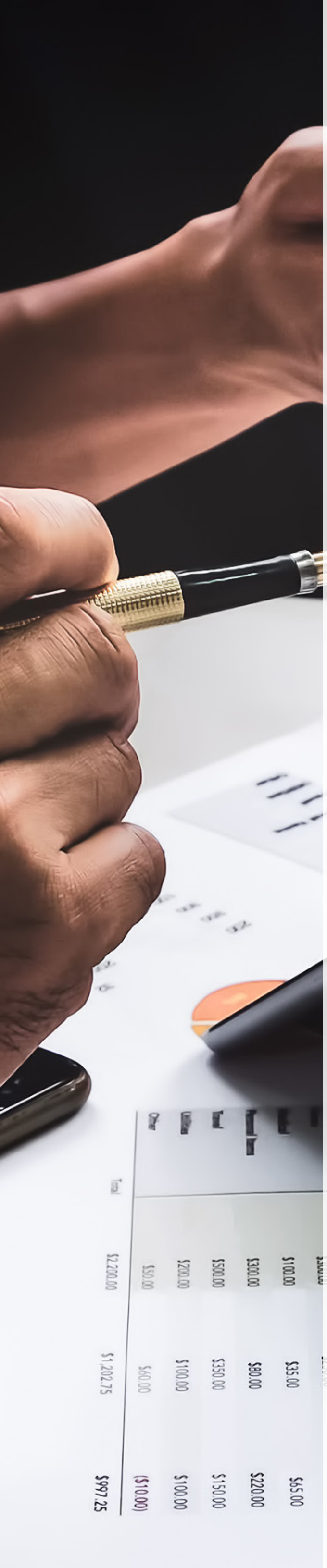
Consolidating forecast data

Automating the integration of forecast data into a single system of record is the next critical factor in achieving effective forecasting. In many cases, source data may come from spreadsheet, as well as various modules within the ERP system(s). While consolidating data into a single system could be an IT-intensive exercise, best practice is to eliminate the need for internal IT resources, reducing the cost and time required to integrate systems. This can be done by having pre-built connectivity within the treasury systems.

Measuring forecast accuracy

The final piece of cash forecasting is to measure the accuracy of the cash forecast at a detailed level. Measuring forecast performance is critical to understanding how effective each line item and source of information was, offering valuable insight into where the forecast can be improved. This analysis must be done at a detailed level. For example, measuring accuracy before and after a 90-day/13-week period can hide many anomalies and offers no meaningful conclusions. Many organizations will measure week over week, while some will drill down at a daily level.

Once accuracy is measured, the treasury team must implement a feedback loop to effect meaningful change. Regional controllers, for example, can only improve if presented with detailed facts. Further, standardized KPIs — that ideally would form a component of performance reviews and compensation calculations — go a long way in reinforcing desired forecast behavior. This is where commitment from the CFO will drive effective forecast performance.



The benefits of cash visibility

Achieving full cash visibility takes time and effort, but the rewards are significant. Armed with a complete, accurate and up-to-date picture of the current cash position and future flows, treasurers can:

- **Make timely and confident decisions** about activities, including investments, borrowing, cash concentration and hedging
- **Pay down external borrowing** with a clearer view of the cash available
- **Invest strategically** with a clear picture of current and future flows
- **Reduce bank fees** by closing or combining redundant bank accounts or negotiating with banks from a position of knowledge
- **Minimize debt and interest expenses** by making the best use of internal cash and reducing external borrowing
- **Gain a clearer picture of risk exposures** and manage risks more effectively
- **Optimize planning** of borrowing and lending operations
- **Increase effectiveness of hedging** by ensuring decisions are based on accurate information

76% of Kyriba customers said they were able to improve cash returns by 15% or more thanks to increased cash visibility.

Source: TechValidate, 2019.

Cash visibility – final thoughts

The future of treasury technology is nearly upon us, with banks starting to invest in APIs that open their platforms to new products and services for corporate customers. One of these innovations is the movement towards real-time bank reporting. In many parts of the world, intra-day reporting happens less than twice per day, and in some cases not at all, meaning that daily cash positioning is largely driven by prior-day reporting and expectations of clearings throughout the day.

Real-time bank reporting, delivered only by APIs, will change the game for cash managers looking to achieve instant cash visibility into accounts. Combined with real-time payments, treasury teams will be in an enviable position of not only having real-time views into bank accounts but also being able to mobilize cash domestically — and eventually cross border — within seconds.

The transformation to real-time reporting will further pressure treasury teams to employ the right processes and analysis to effectively manage cash information in real time. It will be a change for those organizations that lack modern treasury technology, but an opportunity for enabled organizations to earn a competitive advantage in the utilization and deployment of cash.

How Kyriba can help

Kyriba can support you in achieving full visibility over cash.

Kyriba helps organizations reduce the cost and complexity of bank connectivity — whether a company is connecting via SWIFT, using APIs, leveraging country protocol or using a combination of channels prioritizing security, automation and cost minimization. Organizations can easily keep track of signatories, manage workflows and store documents thanks to the control over all global bank accounts given by Kyriba's bank relationship management solution. Additionally, companies can maximize the accuracy of their cash forecast with Kyriba's detailed and flexible variance analysis and feedback loop to forecast sources.

With a full picture of current balances and future flows, you'll be better placed to make confident decisions about cash.

The Leading Global Treasury & Risk Platform

100%
SaaS Cloud Based

100+
Countries

2,000+
Clients

65,000+
Users

17M
Daily Bank Transactions

1M
Daily Payments Managed

About Kyriba

Kyriba empowers financial leaders and their teams with award-winning solutions for cash and risk management, payments and supply chain finance. Kyriba delivers a highly secure, 100 percent SaaS enterprise platform, superior bank connectivity and a seamlessly integrated solution set for tackling today's most complex financial challenges. Thousands of companies, including many of the world's largest organizations, rely on Kyriba to streamline key processes, protect against loss from fraud and cybercrime, and accelerate growth opportunities through improved decision support. Technology analyst firm IDC recognized Kyriba as a global leader in its MarketScape for SaaS and cloud-enabled treasury and risk management applications for 2017-2018. Kyriba is headquartered in New York, with offices in San Diego, Paris, London, Tokyo, Dubai and other major locations. For more information, visit www.kyriba.com.