Against the Odds: Removing Barriers to Optimising Liquidity

by Helen Sanders, Editor

At BNP Paribas' recent Cash Management University (CMU), Vinci Finance International, Holcim Ltd and DFDS each described recent projects that they had undertaken to optimise liquidity, either regionally or globally. Companies of all sizes are very aware of the value of liquidity; however, implementing a regional or global liquidity management strategy can appear particularly challenging in companies with a decentralised organisational structure. As these three companies' experiences illustrate, however, companies with differing degrees of centralisation have comparable opportunities to optimise liquidity, so long as treasurers seek to deliver value at both a group and subsidiary level.

Experiences of a decentralised treasury: Vinci

Jean-Michel Harlepin, Vinci Finance International, (Vinci), a 100% subsidiary of leading concessions and construction group VINCI SA, opened the workshop by outlining how treasury has sought to optimise liquidity management in a decentralised business organisation. Vinci was established in 2008 to facilitate intercompany financing and cross-border cash pooling; however, business units operate on a decentralised basis, so treasury needs to work with each one individually to demonstrate the benefits of a consolidated approach to group liquidity and encourage them to participate in liquidity management structures.

Strategic importance of liquidity management

Optimising and securing access to group liquidity is a major objective for Vinci's treasury team. In particular, treasury aims to achieve greater visibility and accessibility of cash worldwide, to minimise the cost of borrowing and therefore improve group results, reduce counterparty risk, and increase shareholder and rating agency confidence. A vital means of achieving this is to centralise cash wherever possible. Over the past two years, therefore, treasury has implemented a number of cash pools across its global footprint, working with seven partner banks across 120 accounts. In most cases, zero-balancing cash pools have been set up, e.g., in the Eurozone, UK, Poland and Czech Republic, with Romania to follow shortly. Although zero-balancing remains the preferred means of optimising liquidity, Vinci has also set up notional pooling in Switzerland, North America and parts of Asia where it may not be feasible or desirable for group entities to use zero-balancing.

In addition to the single currency zero-balancing and notional cash pools, Vinci has set up multi-currency notional cash pooling, denominated in euro. This allows group liquidity to be managed via a single, base currency account and reduces the need for FX swaps for currency conversion, therefore removing operational workload and risk. The multi-currency cash pool enables subsidiaries located in countries where zero-balancing cash pooling (such as Canada, United States and Switzerland) is either challenging or not permitted to be included, so long as subsidiaries are able to open a bank account in the Netherlands and transfer funds.

Workshop panel:

Jean-Michel Harlepin, Treasurer, Vinci Finance International
VINCI is the world leader in concessions and construction headquartered in France. The group employs close to 191,000 people across 2,100 companies in more than 100 countries. The company designs, builds, finances and manages facilities that improve everyday life: transport systems, public and private buildings in which we live and work, urban developments and water, energy and communication networks. In 2013, VINCI generated revenue of €40.3bn.

Stefano Bianchi, Head, Financial Advisory Services, Holcim Ltd
Holcim is a global company whose core businesses include the manufacture and distribution of cement, and production, processing and distribution of aggregates ready-mixed concrete and asphalt. The company also offers consulting, research, trading, engineering and other services. Holcim employs around 71,000 people, with production sites in around 70 countries. In 2013, Holcim recorded net sales of over CHF 19.7 billion (around €16.2bn).

Simon Hoffmann, Group Treasurer, DFDS
DFDS is northern Europe's largest integrated shipping and freight company, operating 30 routes with 60 freight and passenger ships. The group employs 6,000 employees in 20 countries. In 2013, DFDS generated group revenues of €1.6bn.

Jan Rottiers, Head of Liquidity Management, BNP Paribas Cash Management

Helen Sanders (moderator), Editor, Treasury Management International

A compelling value proposition

As a decentralised business without a mandate to enforce cash centralisation, treasury has worked proactively with subsidiaries (of which there are over 2,500 in 100 countries) to convince them of the benefits, address any concerns and set up the relevant documentation, including international cash agreements and bank contracts according to Vinci's legal requirements. Vinci's subsidiaries maintain their own bank relationships locally, so it has been challenging at times to accommodate local banking requirements and relationships whilst connecting the subsidiary into a wider zero-balancing or notional cash pool.

Key to the value proposition for subsidiaries is that they benefit from improved financial conditions (such as lower financing rates and better investment yield) and reduced counterparty risk. Subsidiaries no longer need to manage their daily cash position, and bank relationship management is more straightforward as a result of harmonised bank conditions and a centrally-negotiated legal contract. By reducing the amount of time spent on daily cash management, subsidiaries can spend more time on medium-term cash flow forecasting that brings more strategic benefit.

In addition to the legal and organisational arrangements, an important enabler of liquidity optimisation is effective technology. Although Vinci has a treasury management system (TMS) in place, its functional scope has been primarily debt rather than cash management in the past. As part of the project, however, the use of the TMS has been expanded to include internal

Physical cash pooling

Physical cash pooling enables organisations to consolidate balances from source accounts to a central account on a domestic, regional or global level.

This efficient, comprehensive and flexible solution can be customised to accommodate your specific needs and requirements.

Efficient:
- consolidation of liquidity onto a central account is performed automatically and at intervals of your choice. Daily cash flow management becomes much less time-consuming;
- enables you to achieve important harmonisation of reporting, operations, bank relationship management, investment and/or funding procedures.

Comprehensive:
- available across five regions: Europe, Asia, Middle East, North America and Africa. All main currencies are managed;
- multi-banking: accounts held at local banks can be integrated in the liquidity structure.

Flexible:
- configure sweeping with a wide range of options, allowing you to choose frequency and type of sweeping, to set thresholds, to enter minimum and maximum sweeping amounts ... and much more;
- choose the most convenient master account location when centralising cross-border liquidity;
- set a personalised wording to describe sweeping transactions at account level and to subscribe to BNP Paribas' customised reporting services;
- create up to 30 hierarchical levels. Specific configurations can be set up in order to comply with local standards and regulations.

Key advantages:
- Enhanced visibility and control over group cash
- Improved cash forecasting, simplified reconciliation and detailed reporting
- Real-time information
- Reduced operating expenses
- Maximised funds for investment

current account reporting and interest calculation. While these reports are currently emailed to cash pool participants, these are being replaced with a dedicated web interface that will allow subsidiaries to submit cash flow forecasts and obtain reports.

Drivers of success

Vinci's treasury team has been remarkably successful both in engaging global subsidiaries and delivering on the group's liquidity and risk management objectives. Key to success has been achieving a balance between local bank relationships maintained at subsidiary level and Vinci's partner (cash pool) banks. Treasury and its internal and external partners have recognised the need to maintain some flexibility to meet both legal and internal constraints in each country, and as Vinci's partner banks have a local presence in each market, they can work directly with subsidiaries to build trust and confidence. A disciplined approach to project management, including a dedicated implementation team, has also been critical to success and continues to be the case as Vinci integrates an increasing number of subsidiaries into its liquidity optimisation framework.

Sharing experiences

Based on Vinci's experiences, Harlepin emphasised the importance of investing time in contractual negotiation upfront in order to ensure a resilient solution in the future. While it is important to focus on the liquidity objectives at a group level, it is particularly important in a decentralised organisation that the solution also adds value to subsidiaries. Experienced banking partners that combine a commitment to standardisation with the flexibility, expertise and local presence to understand, respond to, and build trust and confidence with both group treasury and subsidiaries is paramount to success.

A shift towards centralisation: Holcim

Stefano Bianchi of Holcim Ltd went on to compare how Holcim had managed its liquidity management requirements. Like Vinci, Bianchi explained the variety of constraints that had existed before embarking on treasury's recent treasury optimisation project. While treasury policies were defined at a group level, the organisation was largely decentralised (reflecting the local nature of cement production), with different cash management banks in each country. This resulted in relationships with 46 banks across 87 entities with local working capital financing. Treasury lacked visibility over local cash balances, and there was a fragmented approach to SEPA implementation. Consequently, Holcim was unable to achieve considerable synergies across the business or take advantage of economies of scale.

Catalysts of change

Prompted by a European-wide implementation of a new ERP, which would establish a common technology framework across group entities, and the need to migrate to SEPA, Holcim made the decision to streamline its cash and liquidity management strategy. Transaction banks in Europe would be rationalised to two or three, with physical (zero-balancing) cross-border pooling for both Eurozone countries and non-euro countries with substantial euro flows. Rather than relying on local banks for working capital funding, the selected European partner bank(s) would provide regional funding, with an overdraft facility for the pool header account and guarantee facility. This arrangement would reduce funding and transaction fees, mitigate counterparty risk, standardise cash management policies and processes and achieve better visibility and control of cash. As with Vinci's project, the benefits would be substantial not only at group level but also at subsidiary level. Subsidiaries would no longer need to manage daily cash, and would benefit from more favourable financing and investment rates without the need to manage local banking relationships or maintain cash management resources.

Notional cash pooling

Notional cash pooling: a cash management solution enabling you to obtain better interest conditions by virtually offsetting credit and debit balances. Group liquidity is not physically moved. There is no co-mingling of funds and the integrity of the single account position is maintained.

This solution is particularly addressed to groups with decentralised treasury and cash management organisation that want to:

- preserve a certain level of subsidiary autonomy;
- streamline and harmonise global cash flow management across multiple currencies.

Where liquidity is concentrated in a single location (and where it is legally allowed), a notional pooling balance compensation can be performed. This solution allows you to offset the cash surplus in one account against the deficit position of other pooled accounts (belonging to different legal entities of the same group). This enables a participating entity to use the available cross-currency consolidated position of all accounts in the pool, without performing currency swaps. The notional balance compensation solution can be integrated with the aforementioned notional pooling interest optimisation scheme in order to achieve ultimate multi-currency liquidity optimisation at both balance and interest levels.

Last but not least, BNP Paribas notional pooling solutions can be combined with physical cash pooling in order to fully profit from a global liquidity structure.

Key advantages:

- wide range of interest calculation methods to enhance interest payments;
- extended cross-border scope;
- management of all free convertible currencies;
- real-time control over cash via web-based BNP Paribas global e-banking solution.

A banking partnership

Having made the decision to optimise regional liquidity, Holcim reviewed potential banking partners and selected BNP Paribas exclusively as its European cash management bank, including cash pooling. There were variety of reasons behind this appointment: Holcim had an existing relationship with the bank that had proved very positive; the bank demonstrated excellent implementation capabilities and competitive pricing; solutions and services could be adapted to Holcim's specific needs; technology was state of the art and the bank had the funding capacity to support the business on a pan-European basis. A cross-functional implementation team was appointed (e.g., across legal, tax, IT etc. as well as a point of contact for each country) headed by a dedicated implementation manager.

Delivering value

The implementation commenced in February 2013 and was completed by January 2014. In consequence, Holcim now has a harmonised banking landscape in Europe with BNP Paribas including a euro-denominated cash pool across Europe (including UK) and a CHF cash pool in Switzerland. Debt has been reduced as a result of netting financial assets and liabilities across Europe, and treasury has daily visibility over cash and liquidity with the ability to manage liquidity positions more effectively. A single, pan-European cash pool (plus the CHF pool) have resulted in a 67% reduction in funding costs, 60% reduction in transaction costs and a 45% reduction in bank accounts. Subsidiaries are all financed by the pool leader, which is funded through a bank overdraft and commercial paper issuance. Holcim has a single, host-to-host connection to BNP Paribas, with a common communication format for all countries. With SEPA migration included within the project scope, all countries were SEPA-compliant on time, with a consistent and documented approach to tax issues. Holcim now has a single service level agreement (SLA) for all countries within the project scope, and receives a consolidated report of local transaction costs. This facilitates performance benchmarking and enables bank charges to be reconciled easily.

Proactive project communication

Key to the success of the project has been a proactive communication campaign at every level in the organisation, across all impacted countries. Bianchi emphasised the importance of securing senior management support, and including local finance managers from the point of project inception, with regular information on project progress. The implementation manager visited every country within the project scope to ensure that the project objectives and potential benefits had been communicated and to address any concerns and queries. He also stressed that sufficient time needs to be allowed for completing documentation and a clear escalation path is required to address any issues quickly. Finally, he advised that there needs to be a clear process and timeline for closing accounts with existing banks, and that the process for evaluating and communicating with all relationship banks needs to be fair.

Looking ahead, Holcim is looking to implement a European shared service centre (SSC) to further expand the benefits of centralisation. In Latin America, where an SSC is already in place, a project is underway to review and rationalise bank relationships on a similar basis as the project in Europe. Treasury is also engaged in establishing a global database of operating guarantees and a global T&E (travel and entertainment) cards programme.

Delivering value in a centralised treasury: DFDS

Finally, Simon Hoffmann, Group Treasurer of shipping company DFDS, outlined his treasury's approach to liquidity optimisation. DFDS has a centralised treasury organisation but the company recognised the opportunity to improve cash and liquidity management by streamlining bank relationships and liquidity structures and taking advantage of new opportunities for efficiency and automation. For example, Hoffmann described treasury's original aims to optimise liquidity by centralising cash positions and therefore eliminating idle balances. DFDS' banking structure would be streamlined by rationalising the number of cash management banks, with SEPA compliance in all relevant countries. To achieve these objectives, DFDS initiated a bank tender to mandate two or three banks, set up cash pools in relevant countries and centralise cash and treasury administration.

Technology transformation

In addition to re-organising the company's external banking relationships, treasury aimed to streamline treasury technology with a view to standardising and automating payments and cash management processes. This element of the project was highly dependent on an effective internal IT strategy. In particular, fragmented bank connections would be replaced with standard, host-to-host connections using consistent XML-based formats for all payment types (including but not limited to SEPA). An automated process for SEPA Direct Debits (SDD) collection was required, with a new system for handling SDD mandates.

The project timeline was only twelve months, but a great deal was achieved in this time. DFDS' euro cash pool with BNP Paribas is now in live operation with over 50 accounts zero-balancing on a daily basis into the header account. SunGard's AvantGard Integrity is now the centrepoint in DFDS' treasury technology infrastructure, supported by ancillary systems for on-line dealing, consolidation and FX, interest and commodity rates. A cohesive integration framework has been achieved for importing bank balances (AvantGard Integrity) (currently using MT940 but XML will be used in the future) and transmitting both commercial payments (Visma ERP) and salary payments (Adonis). Following consultation with BNP Paribas, DFDS implemented Easy Collect for SDD, enabling rapid implementation and reduced project risk.

Rapid value creation

Despite the rapid implementation, DFDS' project brought considerable advantages, not least an additional DKK 300m (over €40m) in available liquidity, an enormous achievement in such a short timescale for a company with a €1.6bn turnover. By importing daily bank statements into the ERP, treasury has group-wide visibility and control over cash with only one interface format to maintain. Payments processing is more efficient, with immediate transmission to the bank after approval. Payments are warehoused and made only on due date, enabling a more precise approach to working capital management and fewer ad-hoc payments.

Hoffmann emphasised the central role that IT had played in the project, stressing the importance of early engagement. This IT engagement was essential not only within the business, but banks also had a vital role to play. This included technical expertise, but also project management skills, documentation, format development and testing. Furthermore, banks offered considerable experience based on previous implementations which was valuable for DFDS' project. As the project increased in scope, so too did the number of stakeholders, so it was important to understand and incorporate their needs early in the process. With a complex, multi-faceted project, it was essential to maintain project discipline, just as Stefano Bianchi had noted, and DFDS planned and communicated the entire project scope at the start. It was significant that as DFDS' treasury was defining the project, Hoffmann quickly recognised the value that would result by expanding from a 'cash hunt' project to a complete review and revision of internal processes.

Removing organisational barriers

What all three case studies illustrate is that irrespective of the degree of centralisation within a group, it is possible to achieve substantial liquidity improvements, together with reduced costs and better visibility over cash and risk. Key to success is to work with a banking partner that offers proven expertise in cash and liquidity management, a strong solution and service offering, and the ability to support different organisational structures. For example, in the case of Vinci, it was essential that the bank had a local presence in each country within the scope of the project to build relationships and trust with subsidiaries' finance teams. Having rationalised banking partners, the tools for optimising liquidity are typically consistent across businesses, including various combinations of physical (zero-balancing) and notional cash pooling. However, the means of implementing these techniques, and the rationale for using zero-balancing rather than notional pooling, can be quite different depending on the organisational structure and culture.

In addition to efficient external structures, these experiences also emphasise the importance of efficient treasury processes and technology, including bank integration. DFDS quickly recognised the central role of IT in the project, and treasury's achievements reflect a strong emphasis on standardisation and automation. Not only has this approach resulted in compelling up-front achievements, but treasury is well positioned to accommodate future changes in the business as a result of geographic expansion and mergers & acquisitions.

All three projects were completed relatively quickly, which was particularly noteworthy in the case of Holcim. There is a tendency to assume that liquidity optimisation projects should be very lengthy and cumbersome, which can itself present a barrier to change. While some elements of a project, such as documentation, can be lengthy, these projects demonstrate that a great deal can be achieved relatively quickly, without substantial investment or resource implications. ■