The Key to Improved Liquidity Efficiency in a Rapidly Changing World

New liquidity pooling solutions are delivering greater automation and better cash management

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In the face of divergent regulatory conditions, increased globalization and strong economic momentum, a changing interest rate environment, and the emergence of more agile business models, corporations are under intensifying pressure to keep pace and improve liquidity management efficiency.

For example, the recently enacted U.S. tax reform legislation has U.S.-parented companies deeply focused on, among other things, taking advantage of the opportunity to repatriate periodically.

Similarly, base erosion and profit shifting (BEPS) practices by corporates have caused governments to implement and standardize tactics against tax avoidance strategies that shift profits to low or no-tax locations. So, in the instance of a corporate, whether U.S.- or non-U.S.-parented, that used to sell from a centralized company in Switzerland, they may now start booking more profits locally in line with the risk and "substance" in the country of the actual buyer.

With the increased trend of local sales in local currency, tools such as transactional FX, cross-currency sweeps and foreign exchange hedging will likely be considered as part of a treasurer's arsenal to minimize working capital, manage associated risk to currencies, and extract cash thoughtfully to be utilized more effectively by the corporation.

Despite some headwinds, globalization continues to be a prevailing trend. According to a recent article in the *World Economic Forum*, "the stage is now set for sustained solid growth in the world economy in 2018. IHS Markit expects global growth of 3.2 percent, matching 2017's growth rate, and well above 2016's 2.5 percent."

Of course, with globalization comes the need to effectively manage the geographic footprint, an essential element of which, from a liquidity perspective, is funding efficiency.

For global corporates, market risks are an ever-present concern for treasury. General GDP growth in emerging markets and pockets of FX volatility in certain countries have created additional challenges in managing exposures. Making matters even more uncertain, select geopolitical factors continue to cloud the marketplace picture. Treasury professionals face concerns over what actions particular governments will take and how other nations will respond. Similar uncertainty around who will be elected and how policy will be impacted all factor into the unpredictable environment corporates must operate in.

Finally, automation and digitization are already forces to reckon with in the area of treasury management. With increasing cost pressures, treasury teams are turning to automation and digitization to extract maximum resource efficiencies.

As a result of these dynamic conditions, is a growing urgency for treasury to fine-tune liquidity management and put suitable structures in place to achieve the required level of visibility and control over cash.

Minimizing cash exposures to currencies and FX volatility

This ever-evolving landscape presents some opportunities and challenges.

Capitalizing on growth opportunities across many markets can drain the resources required to manage localized liquidity and meet funding needs. This is compounded when attempting to make the operating structure relatively immune to geopolitical and market risks. Corporates need to perform the balancing act of managing group liquidity, working capital requirements and currency risk management.

With risks identified, examination of process and available tools can be explored to manage these risks within tolerance and at optimal levels of efficiency. Automation and digitization trends are helping take the guess work out of things. Increasingly, opportunities for harnessing more data and investing in uses of artificial intelligence (AI) are also coming into play. The end result creates efficiencies for funding an organization in the right place, in the required currency and at the appropriate time, while effectively managing and hedging risks.

Innovative solutions for a complex global environment

Innovation is shaping new solutions that add to the options global corporates have at their fingertips for managing liquidity. The landscape of multi- and cross-currency solutions is increasingly becoming more real-time, integrated and relevant for today's environment.

Once exposures and tolerances are determined, solutions and tools can be deployed to streamline management of a currency basket and associated market exposure. With the right tools in place, corporates can achieve funding efficiency by reducing borrowing or idle cash, automating deployment of operating cash including FX management, and taking advantage of better investment opportunities.

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Smart solutions, such as Citi's **Cross-Currency Sweeps,** which is a powerful new extension to the bank's existing Target Balancing solution and complement to other pooling solutions, allows treasury to automatically perform FX conversion and minimize FX risk. This solution comes embedded with processes and features that ensure conformity with a corporation's and its subsidiaries' operating model and liquidity needs in an automated fashion. It's the autopilot equivalent for complex cross-border operating money movement, significantly easing the treasurer's burden.

In basic terms, companies can use Cross-Currency Sweeps to set rules that govern fund movements from one account to the other in an automated way, including any foreign exchange trade that may be required. This naturally brings the benefit of automation and allows a treasurer to run an efficient operation – deploying liquidity with the right business entity when the entity needs the liquidity thereby reducing costs and the need for external borrowing.

Keeping a global perspective on business needs

In light of the many challenges corporates face today, treasurers are under increasing pressure to maintain a global perspective on their business needs and to explore how re-engineering their liquidity structures can positively impact business around the world.

By providing digital options to control business operations, new technology solutions are creating a seamless experience for treasurers, improving the ease of liquidity management. It is incumbent on treasury professionals to examine these new capabilities and innovations that are in the marketplace which are allowing simple, digital ways to provide transparency on their liquidity structure globally.

In the final analysis, corporates should look to their banking partners to help guide them in finding the right solutions. The ideal partner will offer an extensive global footprint to provide integrated liquidity and risk management capabilities resulting in improved treasury operations efficiency.

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