# Virtual Cash Management

[ Achieving full cash visibility, access and control ]

ING

# Preface

Widely considered to be the greatest inventor of all time, Thomas Edison had a motto: “There’s a way to do it better – find it.”

Today, the digital age presents exciting opportunities to improve processes, not least in the world of treasury. The continued digitalisation and standardisation of cash management, for instance, is a chance to increase visibility, automation, efficiency and control.

At ING Wholesale Bank, we also believe it is an opportunity to make the life of the treasurer that bit easier, which is precisely why we have created a next generation digital cash management solution, centred around treasurers’ current and future needs.

Combining cross-border virtual accounts with an advanced multi-bank cash management dashboard, our Virtual Cash Management solution is designed to allow every company, regardless of their financial IT infrastructure, to rationalise their bank accounts, centralise multi-entity cash and improve cash visibility. What’s more, our solution enables treasurers to establish a virtual in-house bank and on-behalf of structures, whilst offering enriched reporting and facilitating invoice matching.

As the role of the treasurer becomes more strategic and the optimisation of treasury operations remains top of mind, this whitepaper examines how the increased insight and control that ING’s Virtual Cash Management solution offers can assist treasurers – from increasing operational efficiency and optimising working capital, to speeding up sound financial decision-making.

If you would like to learn more about any aspect of our Virtual Cash Management solution, or discover how ING could help your treasury department to take the next step towards centralisation, please do not hesitate to get in touch.

Dick Oskam,
Global head Transaction Services Cash Solutions

# Cash management: scoping the terrain

It is no secret that today's treasurers are being asked to do more with less. Over the past decade, the treasury function has arguably come under more pressure than ever before – not only to optimise working capital and increase operational efficiencies, but also to add value. Post-crisis, for example, the treasurer's role as strategic advisor to the board has increased significantly as the treasury function itself has, in many instances, been redefined as a value-added cost centre.

Although greater access to the board gives treasury a louder voice in the organisation and the opportunity to help drive value across the business, top executives are demanding more and more detailed reports from the treasury function – around where cash is, how it is being put to use, and whether it could be used more effectively (especially at a time when negative credit interest is a reality). The treasurer is also now expected to put forward informed opinions and ideas to aid board-level financial decision-making, at lightning speed.

**Did you know?**

84% of finance professionals report that the treasury function is playing a more strategic role and 83% anticipate further growth in treasury's expanded role over the next five years.

Source: 2014 AFP Strategic Role of Treasury Survey

## Strategic vs. operational responsibilities

All of this, combined with advances in digital financial services, means that treasury professionals require, and indeed expect, near real-time visibility over cash positions, as well as accurate cash forecasts to help them achieve everything that is expected of them strategically. The growth of the treasurer's strategic responsibilities is just one side of the equation, however.

Recent funding challenges and new regulatory requirements have re-focused the treasurer's attention onto working capital optimisation, with a drive towards speeding up collections, improving reconciliations, and streamlining both the order-to-cash (O2C) and purchase-to-pay (P2P) cycles. All while taking care of the day-to-day running of treasury operations, often with reduced headcount and budget.

Elsewhere, as e-commerce takes organisations into new geographies, treasurers are facing increased operational complexity, in particular around cash management. Continued volatility in the foreign exchange (FX) market is only compounding matters. Little surprise, then, that treasurers are searching for complete visibility and control over cash, together with automation and operational efficiency, as a means to better manage the organisation's liquidity and associated risks – right across the group.

As a result, centralisation and technology are being looked to as a 'cure all'. However, neither is without its hurdles or limitations, in particular for resource-constrained treasury departments.

## Centralisation: worth the cost?

Centralised treasury structures have become increasingly prevalent in recent years, with numerous centralisation initiatives driven by the introduction of the Single Euro Payments Area (SEPA).

As companies continue to expand into new markets, centralisation, in particular of accounts payable (A/P) and accounts receivable (A/R) operations, remains a hot topic. Organisations are increasingly looking to consolidate, standardise and automate their treasury workflows as a means to reduce costs, better manage group-wide decisions and risks, and optimise working capital.

Bank relationships also come into the picture here. Centralisation is typically a good catalyst for rationalising relationships and bank accounts, and gaining a better handle on bank counterparty exposures and wallet share. Yet, as some banks retrench from certain markets, today's treasurers might actually need to increase their pool of relationship banks to gain the coverage they require.

Moreover, the process of centralisation is not as easy as it might appear. First, there are certain barriers to entry, such as in-house bank and on-behalf of structures. There are also managerial considerations: local business units may perceive centralisation as a loss of responsibility, which could lead to a lack of focus or even non-co-operation at local level. It is also possible that local treasury and banking expertise may be lost in the centralisation process, in particular with an in-house bank arrangement.

Then, there are the cost and management information implications. These will vary greatly according to each organisation's footprint and set-up, but points to consider include:

- Although SEPA brought greater harmonisation to the European payments landscape and undoubtedly makes centralisation easier, some corporates still have reconciliation challenges, leading to inefficiencies and increased costs. These issues might arise for various reasons, ranging from incorrect or lost payment references to varying collection amounts as a result of charges along the payment chain.
- Centralisation of collections requires more detailed information about the incoming payment in order to achieve straight-through reconciliation, since collections for different group entities are received into a single account.
- Despite centralisation, complex account structures and inflexible reporting processes may still exist. This means that analysing payments and collections data remains extremely time-consuming. Real-time visibility can also be hard to gain, even though processes are centralised.

In addition, centralisation projects frequently require specialist legal, IT and organisational capabilities that treasury functions rarely have the resources, budget or capacity for.

## Technology: no silver bullet

What's more, the Enterprise Resource Planning (ERP) and Treasury Management System (TMS) software needed for an efficient centralisation process is typically expensive and complex.

Even for those that do have the budget for sophisticated treasury technology, there are often legacy infrastructure and integration issues to overcome before a reliable overview of the company's complete cash position can be built up. In fact, many companies trying to achieve full cash visibility struggle with multiple TMS and ERP systems that are not harmonised.

### Did you know?

86% of treasurers "turn towards technology to help them optimise their processes, focus on increasing centralisation, roll out global standards and implement common technology platforms to efficiently master their growing scope and strategic mandates." Yet 61% of treasury professionals agree that missing budget is the top roadblock to technology adoption.

Source: Reval's 2015 Global Treasury Benchmarking Survey

Many ERP and TMS software solutions also lack the agility to quickly retrieve the type of detailed, customised reports that treasurers require for well-grounded decision-making. The flexibility of some ERPs can also be quite limited, especially when it comes to analysing data around payments information and alerts.

Meanwhile, many treasury functions continue to rely on spreadsheets and data downloads from single bank portals to manually build up a picture of the company's cash. Given that a typical treasury organisation works with six to ten banks and more than 90% of all organisations have relationships with multiple banking providers, this situation is far from ideal.

It is clear that treasurers require a multi-bank cash management portal that is scalable and capable of connecting to existing treasury IT systems. And although many technology vendors are moving into this space, the resources (combination of time, money skills and knowledge) is frequently prohibitive. A different approach is required.

# Going virtual

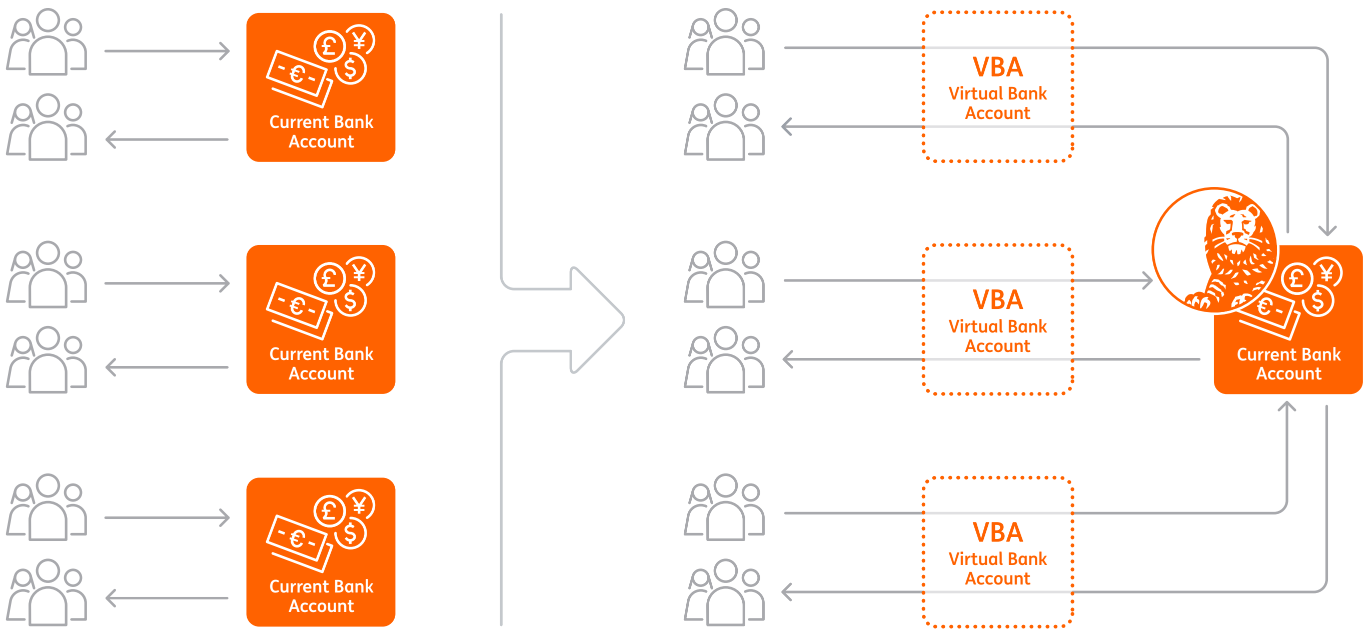
Virtual Bank Accounts (VBAs) are a good example of embracing new technologies and digitalisation. Although the concept means different things to different market participants, it essentially involves bank accounts being replaced, as far as possible, by VBAs. Every VBA is linked to a current account with the bank (see Figure 1) and has a unique virtual bank account number (VBAN), which helps to segregate funds in the current account.

Used in the right way, VBAs offer treasurers a number of benefits, including:

- the possibility to significantly reduce physical accounts
- the ability to centralise incoming and outgoing transactions and cash concentration
- enhanced visibility and control through increased reconciliation
- reduced manual post-processing of unmatched items.

Nevertheless, VBAs do have their limitations. For example, they are currently restricted to single bank usage, and aren't typically available on a cross-border basis. But ING is responding to these challenges with the introduction of its new Virtual Cash Management solution.

**Figure 1. Streamlining through virtual bank accounts**



# Introducing Virtual Cash Management

Designed to help treasury functions reach the next level of optimisation, ING's Virtual Cash Management solution facilitates centralised cash management, visibility and control – without the significant cost or complexity that is traditionally associated with such goals.

Through enhanced insight and analytics, Virtual Cash Management also supports timely, informed decision-making and assists treasurers to deliver strategic value, drive business performance, and increase overall efficiency. All of this is possible regardless of individual treasury departments' financial IT landscape, making it suitable for every company.

So, how does it work? Virtual Cash Management consists of a unique combination of two elements (see Figure 2) that work together to deliver powerful insights: cross-border Virtual Bank Accounts (VBA) and a multi-bank cash management dashboard, called the Virtual Ledger Account (VLA).

## Pillar 1. Virtual Bank Account solution

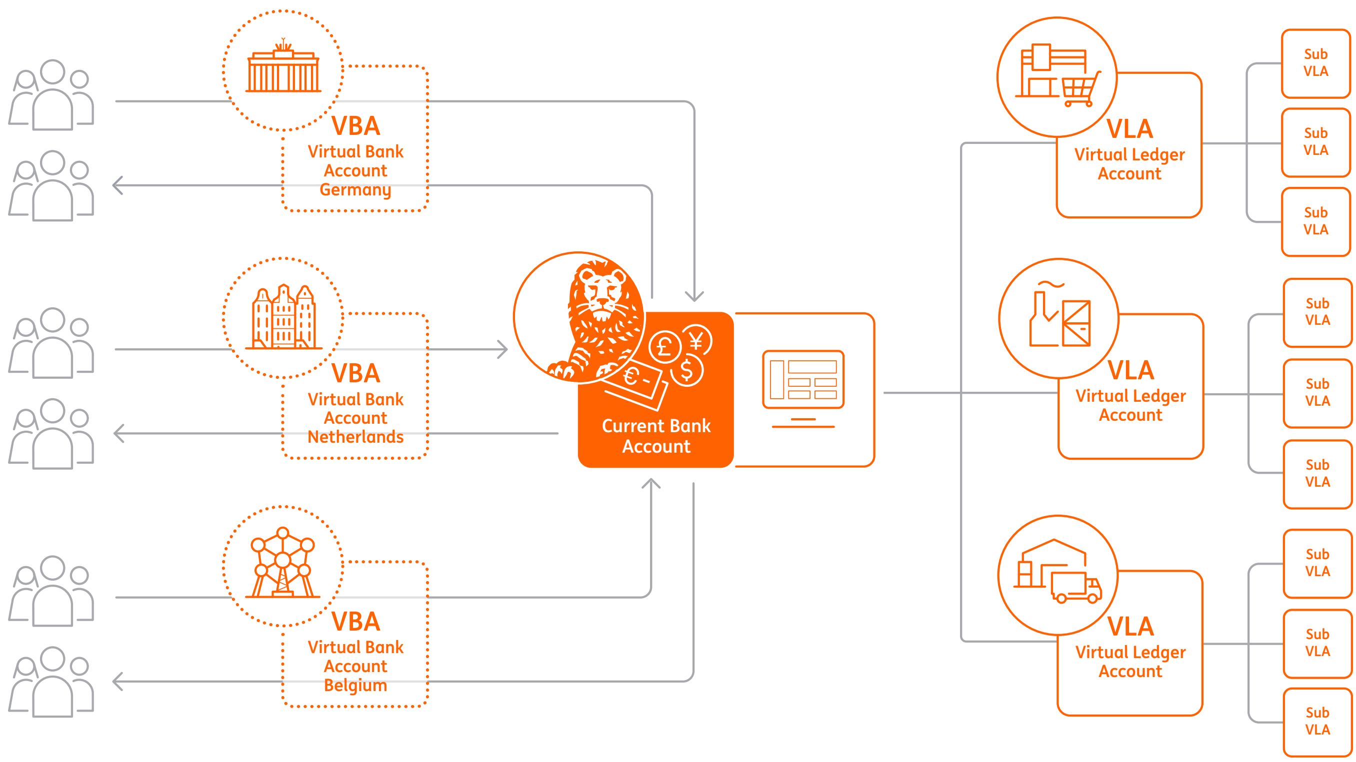
Most companies hold numerous accounts for different purposes and in various locations, which makes centralised visibility and availability of cash a challenge.

By replacing current accounts with Virtual Bank Accounts all linked to one 'master' current account, all transactions and multi-entity cash can be concentrated in one place. Virtual Bank Accounts can be held in another country from the current account, as long as the accounts are in the same currency.

**VBA: benefits at a glance**

- Optimise the number of physical accounts
- Concentrate cash
- Centralise transactions
- Enhance reconciliation
- 100% payer identification
- 100% ultimate creditor identification
- Cross-border VBAs

**Figure 2. The complete Virtual Cash Management Solution**



Virtual Bank Accounts are easily set up and can be allocated to any purpose (e.g. to a legal entity, business unit or to pinpoint individual payers), thereby facilitating straight through reconciliation and reducing manual post-processing. As there is no balance held on a VBA – since all funds are directly routed to the current account – costs and administrative activities can also be significantly reduced.

## Pillar 2. Virtual Ledger Accounts

Another clear benefit of ING's Virtual Cash Management is the integrated Virtual Ledger Accounts offering – a flexible, multi-bank reporting dashboard that facilitates more informed, strategic, accurate and speedy decision-making. Virtual Ledger Accounts themselves are essentially administrative sub-accounts that enable the treasury function to allocate cash without segregating it physically. This allows treasurers to gain an overview of cash positions, plus deeper insight, at any desired level.

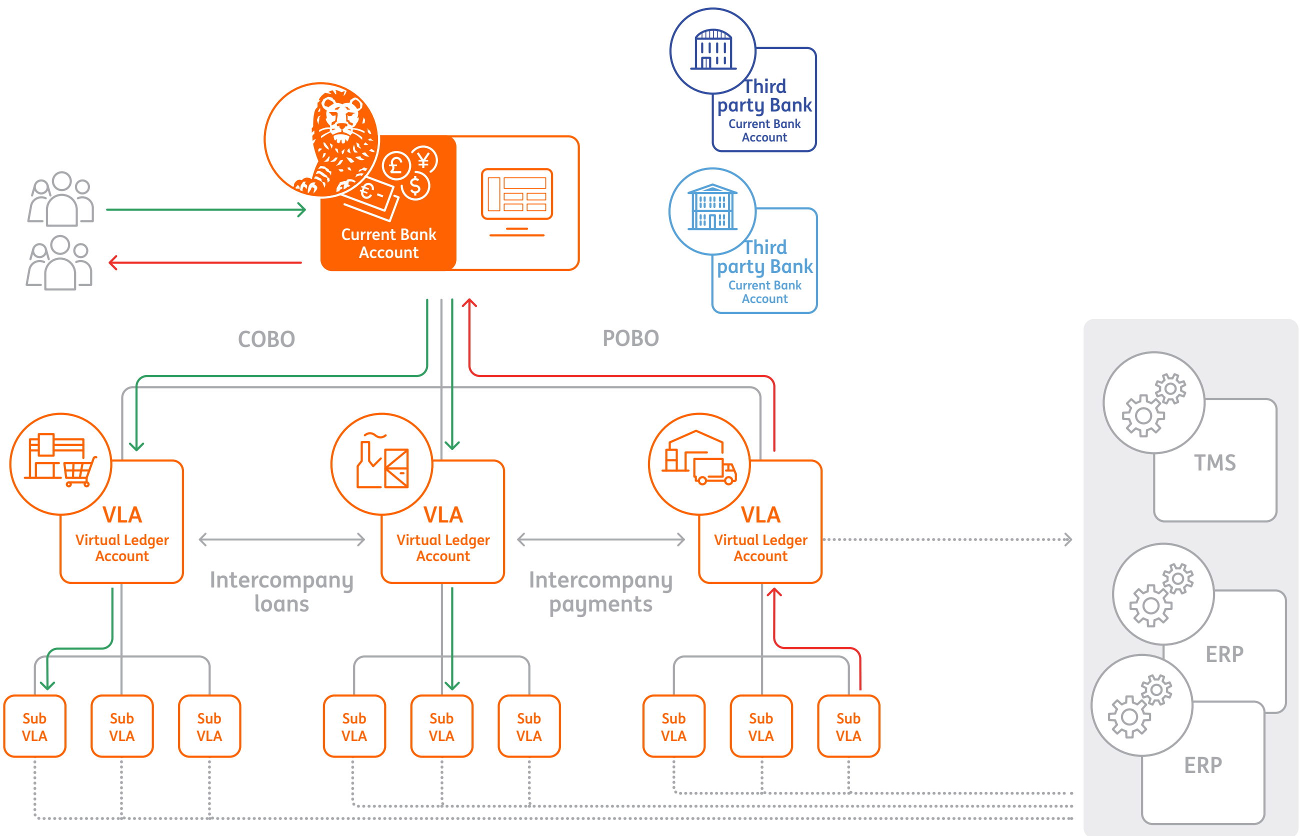
Through the Virtual Ledger Account dashboard, treasurers can benefit from seeing all available banking data, not just across ING bank accounts, but on a multi-bank basis, giving them a complete overview of all payments, collections and cash across the group – in near-real time and in multiple currencies. This includes intercompany loan administration.

Our Virtual Ledger Accounts offering (see figure 3) also enables treasurers to set-up an in-house bank, thereby eliminating the

### VLA: benefits at a glance

- Multi-bank, multi-currency cash visibility
- Near-real time
- Self-service model
- In-house bank
- POBO/COBO facilitation
- Timely and accurate reconciliation
- Reduced DSO
- Straight through matching
- Enhanced reporting
- Better visibility of information
- Optimised cash flow forecasts
- Improved strategic decision-making

**Figure 3. Virtual Ledger Account overview**



need for expensive in-house banking software. Furthermore it facilitates centralisation of transactions by lowering the barriers to entry for payments and collections on-behalf-of (POBO/COBO).

Users can configure their Virtual Ledger Account hierarchy themselves, at any level, in line with their business requirements. The unique self-service element of the dashboard makes it possible to set overdraft limits, interest rates, position alerts and build tailor-made reporting based on the user's specific needs, business role and financial IT landscape, thereby enabling faster and better-informed strategic decision-making. With every transaction, users can receive enriched information which can be seamlessly integrated into their existing technology set-up.

In addition, the Virtual Ledger Account solution helps optimise reconciliation. Incoming transactions are automatically recognised and allocated to the appropriate Virtual Ledger Account, based on the solution's self-learning capability - and its ability to facilitate one-on-one matching with outstanding invoices. In situations where a customer doesn't provide remittance information, the system proposes allocation of the funds based on historical data and mimics recurring actions, thereby reducing days sales outstanding (DSO).

## A powerful combination

By integrating Virtual Bank Accounts with Virtual Ledger Accounts, ING's Virtual Cash Management solution allows full cash concentration and visibility to be realised right across the group, no matter how the company's treasury function is organised, or how sophisticated and harmonised its technology infrastructure is.

As a result, treasurers can free up time for more value-added tasks – like deciding how best to put cash to use. Through the enhanced reporting capabilities of Virtual Cash Management, and its sophisticated invoice matching engine, treasurers can also concentrate on optimising the company's working capital position by streamlining O2C and P2P processes.

In short, ING's holistic Virtual Cash Management solution is designed to make treasurers' lives that bit easier – and to help them stay a step ahead of business challenges and capture future opportunities.

**VCM enables treasurers to:**

- Increase cash visibility, access and control
- Make better informed decisions
- Embrace best practice
- Free up time for more value-added tasks
- Future-proof treasury

**Virtual Cash Management: key benefits**

- Facilitates cash centralisation and helps rationalise bank account structures
- Offers full, group-wide cash visibility, access and control
- Creates an in-house bank, without the cost of in-house software
- Self-service, multi-bank cash management dashboard
- Increases straight through processing and reconciliation
- Facilitates working capital optimisation
- Lowers barriers to entry around POBO/COBO
- Offers enhanced reporting
- Provides near real-time information
- Works regardless of financial IT set-up
- Offers significant cost and process efficiencies
- Enables faster, better-informed strategic decision-making

## Take the next step

At ING, our vision is that corporates of all sizes should be able to manage group-wide cash in a digital arena through a single, flexible, multi-bank portal that can seamlessly integrate into any treasury department's existing IT infrastructure. Virtual Cash Management is our way of making that vision a reality.

Take the next step on your cash centralisation journey today and discover that there truly is a better way.

## More information

For more information, visit www.ingwb.com/vcm.



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