Cash 105
Basic Treasury Management
Treasury Management

- Treasury Management (TM) covers all aspects involved in managing an entity’s financial assets.
- TM goes beyond simple cash management to deal with longer-term borrowing and investing, capital management, and operational, financial, and reputational risk.
Treasury Management

- The overall goal of treasury management (TM) is to manage the cash and related assets for an organization.

- Regardless of wealth or efficiency, there is a limited and fluctuating amount of cash and assets available at any given time.
Treasury Management Objectives

- TM is responsible to manage and use that pool of resources as efficiently and effectively as possible.

- Maintain liquidity: ensure the organization’s ability to meet current and future financial obligations in a timely and cost-effective manner.
Treasury Management Objectives

TM establishes the policies and strategies that maintain the following:

• Manage holdings of non-earning cash
• Providing adequate liquidity.
• Invest excess cash to generate income
• Pay debt to reduce interest expenses
Treasury Management Objectives

Manage Investments: Invest excess funds in a prudent manner for short/long term needs.

- Preservation of principal is primary objective
- Ensure liquidity and maximizing overall return
- Investments should be conducted with a board approved investment policy
Treasury Management Objectives

- Liquidity: Maintaining access to medium and long term financing:
  - To support planned asset expansion and the organization existing asset base
  - Provides the financial flexibility needed to take strategic action when investment opportunities arise
  - Reduce excess interest expenses by monitoring debt
Treasury Roles and Responsibilities

- Board of Directors/Board of Deposit
  - Approve Policy
  - Approve new investments and exceptions
  - Set performance metrics

- Chief Financial Officer (CFO)
  - Oversee risk, tax, investor relations, investment strategy
  - Approve minor exceptions
Treasury Roles and Responsibilities

- **Treasurer**
  - Policy custodian
  - Manage overall financial risk
  - Distribute policy revisions

- **Assistant Treasurer**
  - Oversee investment activities
  - Collect performance info
  - Recommend investment variations
Treasury Roles and Responsibilities

- **Cash Manager**
  - Day-to-day cash management
  - Manage accounts
  - Usually reports to treasurer

- **Risk Manager**
  - Disaster recovery and contingency planning
  - Insurance
  - Usually reports to CFO
Treasury Roles and Responsibilities

- **Internal Auditor**
  - Ensures controls for operating procedures to protect against loss from inefficiency or fraud
  - Usually reports to board of directors to ensure objectivity

- **Credit manager**
  - Sets credit policies
  - Usually reports to CFO
Treasury Roles and Responsibilities

- **Accounts payable and accounts receivable**
  - Payments to/from vendors and suppliers
  - Consistent with credit terms
  - Usually reports to CFO

- **Investor Relations**
  - Provides outside investors with up-to-date info.
  - Usually reports to CFO
Disbursements

- Primary role of disbursements is **control**
- Funds sent and received exactly as requested by accounts payable
  - Verify payment processed and debited from disbursement account accurately
- Ensure funds availability

- Control risk/fraud
Disbursements

- May range from a single bank account to very complex systems covering multiple banks, accounts, and management products

- ZBA-Zero Balance Account
  - End of day balance is maintained at zero
  - Credits and debits that post are netted at close of each business day
  - Internal bank transfer only (within same bank)
Disbursements-ZBA con’t

- ZBA-usually disbursement account that company issues checks, initiates ACH, or wire transfers.
  - Allows multiple divisions to initiate and segregate payments from separate accounts
  - Reduces excess balances and need for manual transfers
  - Protects main account from fraud since blocks can be applied
Disbursements

- Positive Pay: service that primarily combats check fraud
  - Company sends file of payment info to disbursement bank at or before physically sending checks
  - Bank matches check serial numbers and dollar amounts of checks presented against database
  - Bank pays only checks that match
Disbursements

- Controlled Disbursement: service provides same-day notice to company of checks that will clear against disbursement account on given day
  - Account is typically not funded each day until after the daily notification is received.
  - Automatic or manual funds transfer
  - Daily clearings are normally available by mid-morning
Disbursements-ACH

- Direct Deposit: Automated Clearing House (ACH)
- Transfers made from company’s account to employees, vendors, and partners.

Most common forms of ACH include:
- Payroll
- B2B transactions
- Tax Payments
Disbursements-Wires

- Wire Transfers-used to make large value immediate payments
- Repetitive wires: frequent transfers to same party. Only date and dollar amount change
- Semi-repetitive: customer description changes
- Non-repetitive: debit and credit parties are different each time.
Wire vs ACH

Main difference is cost:

- Wire can cost $10-$25 each. An ACH usually less than 0.25 cents
- Setting ACH templates require set up
- Most ACH payments take longer than 24 hours
- Most companies prefer an ACH payment instead of check payment
- Confirm ACH info with vendor: ACH blocks?
Credit Cards (Purchase Cards)

- Purchase Cards: credit cards used by business to purchase supplies and inventory
  - Purchases can be limited to approved vendors depending on merchant category code
  - Replaces paper requisition process
  - Usually provide purchase rebates
  - Delays payment for items until end of billing cycle
Check Acceptance

- Electronic Check Conversion
  - Scans checks and converts items to ACH trans.
  - Checks submitted directly to bank for deposit

- Electronic Check Conversion With Verification
  - Scans/converts check to ACH
  - Verifies against check/fraud database
  - Can provide collection for returned check
Cash Handling

- Cash courier
- Armored car service that collects and/or exchanges cash from location on set dates and times
- Can provide change
- Provides secure transport of cash
- Usually for businesses with large cash volumes
Cash Handling

Smart safes

- Cash deposited directly to electronic safe at location
- Safe records cash and transmits dollar amount directly to bank nightly
- Bank posts funds to account the next day
- Courier collects cash weekly, monthly etc
- Eliminates cash deposit trips to local bank
Manage External Vendors

- Request for Proposal-RFP
- Gathers vendor information and pricing for service needed.
- An in-depth RFP is beneficial with exception for non-commodity products (ex: printer paper)
- Align RFP with Future Objectives
  - What’s working and what’s not?
Factors that increase the mutual benefit and profitability of the vendor relationship:

- Open and frequent two-way communication
- Regular and timely feedback
- Documentation of expectation of both parties in agreement and contracts
- Fairly priced, efficient, and effective financial products
- Complete, candid, and timely disclosure by both parties
Manage External Vendors

- Treasurer or investment board determines how many financial relationships
  - Costs of multiple relationships
  - Risk of single point of failure/concentration
  - Organizations credit needs
  - Capabilities of certain banks
  - Geography of service area
Manage External Vendors

- Often one bank is designated as the primary institution
  - Common for credit relationships
  - There may be different lead institutions for credit and other services.
- Maintaining secondary financial relationships allows the TM group to shift accounts if needed
Manage External Vendors

- Financial providers usually understand their share of business being provided.
  - Often referred to as “share of the wallet”.
  - Vendors often ask for more business

- Also beneficial to ask vendors which services they would like to provide.
  - Vendors may be stronger in certain areas
Treasury Management Conclusion

Organizations and companies that maintain a strong TM organization are better positioned to:

• Maintain a lower risk and durable reputation

• Avoid public embarrassment through accountability

• Attract and retain shareholders
Treasury Management

- Questions?