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VISSZA A MENÜBE / BACK TO SECTION LIST

CORPORATE LIQUIDITY AND CASH MANAGEMENT

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Abstract

The corporate liquidity management is any extremely important task nowadays, especially in time of resource shortage. The domestic corporate segment – like the European follows – been seriously affected by the international financial crisis which left their mark in the smooth operation of daily financial processes. It means a continuing challenge to ensure a smooth liquidity for the corporate management. The situation has been exacerbated, because the credit institutions have been forced to tighten lending conditions, and the credit also has become more expensive in parallel with the increased risk. The entities had to retrace their revenue and cost structure. The financial efficiency is becoming increasingly important, which alternative solution could be the cash management.
Cash management provides facilities of liquidity optimization for companies which have several accounts in one or multifarious currency. The most important advantage of the service is that it filters out superfluous cash flow between members of company group and only the effectively necessary cash amounts be paid of fin the course of netting. Parent establishments which are owner of pool account usually credit at a lower rate. These credits can be cheaper than a bank loan, but you have to take notice of tax regulation of transfer pricing.

Absztrakt

A vállalati likviditás-kezelés napjaink kiemelkedően fontos feladata, különösen forrás szűke idején. A hazai vállalati szegmenst - hasonlóan európai társaihoz - a nemzetközi pénzügyi és gazdasági válság súlyosan érintette, amely a napi pénzügyi folyamatok zavartalan működésére is rányomta bélyegét. A vállalati menedzsment számára folyamatos kihívást jelentett a zökkenőmentes likviditás biztosítása. A helyzetet súlyosbította, hogy a hitelintézetek kénytelenek voltak szigorítani hitelezési feltételeiken, és a hitel is drágábbá vált a kockázat növekedésével párhuzamosan. A gazdálkodó szervezeteknek át kellett gondolniuk bevételi és költségstruktúrájukat. Egyre fontosabbá válik a pénzügyi hatékonyság, melynek egyik alternatív megoldásaként jelentkezhet a cash menedzsment.
A cash management olyan vállalkozások részére nyújt likviditás-optimalizálási lehetőséget, amelyek egyidejűleg több folyószámlát vezetnek akár egy- vagy többféle devizanemben. A szolgáltatás legfőbb előnye hogy kiszűri a vállalat-tagok közötti fölösleges pénzmozgásokat és a nettósítás során csak a ténylegesen szükséges pénzösszegek kerülnek elszámolásra. Az anyavállalatok - amelyek a pool számla tulajdonosok - általában lehetőséget biztosítanak a tagoknak belső kamat mellett a hitelek igénybevételére. E hitelek olcsóbbak lehetnek, mint a banki hitel, azonban figyelembe kell venni, hogy egy adott ország milyen adójogszabályokat alkalmaz a transzferár alkalmazása során.

Introduction

The liquidity is that kind of state in the economic life of an actor when all the purchases and payment can offset obligations until due date.
The liquidity is the rating established of the debtor, which means for example that it is significantly influencing possibility to get access to bank credit and conditions.
The liquidity is a static characteristic. It shows at any given time a company's solvency or insolvency.
The ability to pay - as a potential opportunity – should not to be confused with the paying readinessy, which is characterized by the utilization of capacity.
A better liquidity also means for businesses, in general - that the business scope is expanding, increasing just like the company's freedom of decision making. However, it should also be considered that the traditional means to improve the liquidity – to increase the level of working capital at a company – entail additional costs (eg. increases in the inventory costs). [1]
The high free cash resources should be anticipated with the loss of benefits as well. These funds could have been invested for the longer term for significant yield, but it falls out.
Of course, it should also be noted that not only maintaining high level of liquidity is of high costs, but the lack of liquidity as well. These include reductions in customer orders missed by necessity or by increased bank borrowing caused by excess interest. Companies should strive to maintain a level of working capital, where the aggregated costs resulting from lack of liquidity, and any costs incurred due to excessive liquidity are minimal. [2]
Based on the foregoing it clearly be stated that the for companies it is one of the biggest financial challenge, the approximate the optimal level of liquidity and create a long-term maintenance. Instead of the known methods to improve the liquidity (effective recovery of debts, excess stocks, investment retrenchment, etc) we want to show a type of opportunity considered to be new – yet in our country – that could be effectively used by a range of companies on the way to find the way towards creating optimal liquidity. [5,8]

Place and function of the cash management in the corporate management

Bank loans, government grants and EU-funded resources play a decisive role in the financing structure of Hungarian enterprises shown in the Corporate Banking Monitor 2009 survey by GfK Hungary. In the case where a number of subsidiary companies also operate banks wishing to assist a special service for the management of liquidity, which will be presented in this study. The business to business financing represent a realistic alternative mainly to large enterprises in the field of the optimization of liquidity.

The forms of corporate finance (%)

Table 1

Form of financing	2007	2008	2008 (revenue below 500 million HUF)	2008 (revenue above 500 million HUF)
Bank loan	63	56	54	59
Government grants and EU-funded	19	23	23	21
Own capital raising	6	7	8	4
Business to business loan	5	3	3	5

Source: GfK Hungária, Corporate Banking Monitor 2009

The definition of the Cash Management

American English expression of international origin, which states:
All the measures of planning, implementation and monitoring we mean to ensure the solvency of any company.
On the one hand, in case of liquidity surplus it means investing funds temporarily released from a profitable position, on the other hand in case of liquidity deficit to cover it.
The purpose of the cash management is to monitor cash flows and ensuring that you always have sufficient liquidity to meet payment obligations (for example: a bank balance of liquidity, solvency, prediction). [3]
Tax Office guidelines state that any arrangement which is inherent in the foreign source of financing is a burden, but not a loan because [3]

- The agreements does not speak about specific amounts,
- The bases of transactions are formed by non-specific transactions,
- The participants are both creditors and debtors,
- The purpose of the financial transactions is cover treatment.

The banks' cash management services to the customers having more current accounts are created to the consolidated treatment of the current accounts.
This activity includes:

- Choice of payment methods,
- Managing bank relation,
- Liquidity management and funding issues relationship,
- Limited account turnover management,
- Internal interest calculation,
- Expense calculation,
- Overdraft facility allocation.

Advantages of the service:

- Group test coverage,
- Transfer of liquid assets inside of the group,
- Optimizing of the liquidity situation,
- Parent and subsidiary can finance each other instead of a more expensive bank source, rapid reallocation.
- In case of joint management of the group's liquid assets, they can reach higher interest income rate by the usage of stripped interesting.

- Liquidity management can be automated among the members of the group
- A more efficient payment flow, making cost reduction. (for example: energy cost payment, payment obligations and at the time of transfer)
- Payments delayed: limited, but mainly can be good in managing the currency risk if load can be matched with the credit entry

Possible levels of cash management:
- Inside of companies group: between divisions and sites,
- Inside of company: on the domestic and international level,
- Outside the company: involvement of suppliers and customers.

Corporate cash-pool

Integrated management of the bank accounts in a business group in order to optimize the company's financial position, to achieve better depositors position or internal funding to reduce the external stock debt. The final balance of all independent companies' accounts is every day pooled to a designated account, the bank will pay interest on deposits after this higher amount or, if necessary, allows cross-subsidies between members. The balances are accrued next day morning. (Other forms of consolidated account management: balance order, interest-pool, etc.). [7]

The key banking services in the Cash Management

1. *Managing of a limited turnover account*

It means that the individual accounts are separated from the other side, one is only for the credits the other is to only loads payment orders are fulfilled only during a predetermined time interval.
Advantages:
- handling of liquidity is more efficient, predictable,
- easy to navigate balance of account.

2. *Calculation of the internal interest*

Used for accounting services inside company groups. The negative balance accounts to pay interest for the accounts having positive balances.
The internal rate can be reference interest rate or fixed interest rate and it is determined by the company. The internal loan and deposit rates can be different or the same.
Advantages:
- the company should not take a bank loan,
- cheaper method of financing inside the company.

3. *Cost accounting*

A bill relating to payment transactions that can be solved, that only one account is loaded.

4. *Overdraft credit allocation*

The company can meet the needs of individual and group-related invoices to claim credit.
Advantage: such members can obtain the credit line that would otherwise not be received such an opportunity.

Credit frames used during the bank coverage analysis:
- Credit frame to the group and member account,

- Credit frame to the group and some member account: a member account will be appointed in the group which shows the balance of the whole group, and the owner of the member account assigned to all credit frame.
- Credit frame to the group: the owner of the member account without limitation use of credit assigned to the group. The one which is faster will get and use the credit.
- No group credit, but to the member account credit is linked: the owner of the member account has only their own credit frame.
- No credit group, only the consolidated group balance: the balance of the group size member account only be charged, no credit frame.

Cash pooling

A banking service, which allows the optimization among a number of predetermined accounts' account balances and the interest of account balances. There is no actual cash flow among the participating accounts in the system, to calculate the consolidated balances we have a technical account in which there is no actual cash flow.
Advantage: easy to track the net balance of accounts, their size, without actual payment.
Cash pool: treasury system, which optimize the cash management at small businesses and local governments. The main aim is to filter out the excess cash flows and fair statement of financial need. [6, 9]

Cash concentration
In this case, actual transfer is made among the accounts at specified intervals and at times the, the balances are transferred to the main account, cash move is already here, there are changes in the owner of the money.

Forms of the Cash concentration
Zero balancing: the bank under a contact with the bank transfers all the balances on the sub-accounts to the main account at the end of each day.
Target balancing: not the total balance will be transferred only a specific part.

Forms of pools:
- P*roviding insight for the pool manager:*
The group's center office is able to continuously monitor the group's accounts.
- *Balance consolidation without funding framework:*
To the pool main account there will be transferred the member accounts having positive balances at the end of the day and returned to the member accounts balances next morning. The bank pays a higher interest rate after the consolidated balance, the bank gets an advantage because it's liquid asset.
- *Balance consolidation with funding framework:*
Member accounts balances are consolidated on the pool account, overdraft credit lines already in financial performance, the expense can be made only in the context funding framework be conducted.
- *Overdraft frame is only at a pool account*
Members of the group can undertake overfulfilments to the credit against the frame of the group, but they cannot exceed the credit frame of the group.
- *Balance settlement with balance order.*
The sub-account combine prevents the central balance settlement. There can be a priority settlement added to.

International pooling

Forms of the international pooling:
Local-currency pooling: all their partial accounts are in the same currency, the country where the subsidiary's own accounts of the treatment you select a bank that manages them.

Single-currency pooling: a given bank manages the subsidiary's accounts operating in other countries; the currency is irrelevant.

Single-currency cross-border pooling means that subsidiaries operating in different countries are calculated in one country and currency. If the companies are not directly related to the high cost of international payment systems it may not be advantageous.

Two-tier or multi-pooling: the first sub-pools will take place within the settlement of accounts with balances to be settled between them. (Multiple business interests in the country and further their interests take place between the "pooloing".

Compensated multicurrency pool: the balance of certain subsidiaries in various currencies in a day passed through the central account of an internal exchange rate at the same time the local currency of the amounts accrued will be a central account. Establish a central position in one currency, but even broken down by currency as well.

Multicurrency pool: common interest calculation view of a pool of accounts held in different currencies are defined using the exchange rate.

Cross-border multicurrency pool: different countries, different currencies into a common account management. Problem is on foreign exchanges has different rates, different delivery time zone can be different from country to country, it is difficult to apply.

Additional service: In Hungary, opening a bank account abroad without transcending the board. In fact, exchange documents between branches.
Euro-performing group members' performance within the banking group discount anywhere where the banking group members are present.

Summary, conclusions

Cash management provides facilities of liquidity optimization for companies which have several accounts in one or multifarious currency. The most important advantage of the service is that it filters out superfluous cash flow between members of company group and only the effectively necessary cash amounts be paid of fin the course of netting. Parent establishments which are owner of pool account usually credit at a lower rate. These credits can be cheaper than a bank loan, but you have to take notice of tax regulation of transfer pricing.

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