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Accenture Payment Services

Payments Transformation - Liquidity management

The global context

Sound intraday liquidity management is now an imperative for running any healthy financial institution. The financial crisis triggered intensifying regulatory pressure on banks to manage intraday liquidity proactively and on a real-time basis, as well as to hold sufficient liquid assets to support their intraday requirements. In addition to the Basel III requirements and timeline, some countries have also introduced interim, earlier or additional requirements.

Yet, despite the heightened regulatory focus and ongoing advances in technology, some banks still rely on manual inputs and spreadsheets to calculate their intraday liquidity needs, and many still lack a holistic view of their liquidity. These manual practices are no longer fit for purpose.

In a consultative document published in July 2012[1], the Bank for International Settlements' (BIS's) Basel Committee on Banking Supervision (BCBS) comments that "no single indicator can provide supervisors with sufficient information on intraday liquidity risks or on how well risks are managed," and proposes a set of indicators to monitor three factors:

- A bank's usage of, and requirement for, intraday liquidity both in normal times and in times of stress;
- The intraday liquidity available to each bank on a daily basis, both in normal times and in times of stress; and
- Changes in banks' behavior over time within the payment and settlement systems.

These proposals are just one element of the regulatory changes under way. The costs of inefficient intraday liquidity may appear minimal today, but new regulatory requirements will push these costs significantly higher when quantitative easing comes to an end, and as more of the balance sheet becomes tied up holding highly liquid, lower-risk, lower-return assets.

Given these rising costs, many banks are facing an increasingly urgent need to optimize their intraday liquidity management by leveraging technology solutions and tools—a need that will be further heightened by regulation. In the paper cited above, the BCBS identifies a number of KPIs and data items that a bank can use as indicators for monitoring (and controlling) its intraday liquidity needs. These indicators are shown in Table 1.

For banks that make the right responses to emerging financial and regulatory imperatives, the prize on offer is huge. Optimizing liquidity management not only saves costs by reducing collateral, but also increases control and transparency across operations, front office, audit, management and clients. In turn, these improvements reduce "dead" money and overdraft costs, and enable enhanced real-time management information for quicker, better decision making.

Further tangible benefits include real-time global cash control, further boosting efficiency while lowering effort. Professional management of intraday liquidity also benefits banks' customers by enabling the smooth transmission of their payment flows, avoiding unnecessary interest costs, and giving the corporate treasurer greater insight to multibank flows.

Table 1. Indicators proposed by the BIS's Basel Committee on Banking Supervision[1]

The proposed set of indicators Indicator of:		
i Daily maximum liquidity requirement	iv Time-specific and other critical obligations	viii Timing of intraday payments
ii Available intraday liquidity	v Value of customer payments made on behalf of financial institution customers	vii Intraday throughput
iii Total payments	vi Intraday credit lines extended to financial institution customers	

Key challenges

Banks seeking to optimize their intraday liquidity management commonly face challenges in four areas:

Scheduling

Many banks suffer from heavy outflows—with debits tending to occur early in the day, while credits arrive later—or peaky flows, making it hard to match debits with credits and keep them in balance. Insufficient liquidity can cause stalled payments that undermine customer satisfaction. Payment prioritization can be a further issue, with banks sometimes releasing large but low-priority payments early, thereby draining their liquidity for the rest of the day. And counterparty risk is not always factored into payment scheduling.

Balance sheet and collateral

Collateral inefficiency can be a significant burden, with many banks allocating collateral to meet their payment needs rather than managing their payments to minimize collateral. A bank's balance sheet can be impacted by its relative position on the prioritization schedules of other banks, and by the costs of collateral for heavy users such as forex and wealth management. In some banks, costs are increased by the length of time it takes to get approval to sell collateral, and by a lack of automation between cash liquidity and collateral accounts.

Operational efficiency

In trying to strike the right balance between volume and value, some banks are hindered by their transaction management team being incentivized solely on volumes, and by a lack of automated controls to catch keying errors early. Further issues can include liquidity trapped in nostros to support SWIFT payments that could be cleared internally, or a lack of visibility on intraday operations costs and the impacts of transfer pricing on transaction management.

Planning

Some banks lack transparency into where their payments are in CSMs. The accuracy and frequency of intraday forecasts also varies, as does the ability to influence behaviors to improve them. Critical intraday cut-offs such as CLS can be at risk. And some banks fail to consult liquidity managers on the liquidity, collateral and operational implications of new products during development.

Accenture's approach

Accenture has a proven track record in helping banks move to real-time intraday liquidity management, realizing many financial, operational and customer benefits. These can reduce the collateral-to-payments ratio to less than 5% (often from up to 20%), cutting intraday funding costs by up to 75%. Real-time liquidity management also reduces liquidity, counterparty and systemic risk, and enables improved customer service by reducing queries, late payments and complaints. At the same time, it opens the way to enhanced collaboration and cooperation across the bank, and greater transparency on product costs and product P&L.

Liquidity tools—our partners

To help clients realize all these benefits, Accenture brings to bear some valuable market-leading liquidity management tools in collaboration with our partner vendors. These tools include products from SEPA Consultancy for business simulation and modeling, and from Fundtech for real-time liquidity tracking and management.

The SEPA Consultancy Liquidity Manager Simulator

(see Figure 1) creates value in four main ways:

Education

Providing insight, understanding and learning on the critical elements of managing liquidity across all areas of the business.

Modeling and internal analysis

Including off-line 'what if' analyses, internal resilience checks, stress-testing, and external event planning, e.g., for a euro crisis.

External engagement

With regulators, payment schemes, monetary authorities and other banks.

Commercial customer value

Including forecasting corporate liquidity before on-boarding new clients, projecting client transaction volumes, analyzing client behaviors, modeling new products, and supporting liquidity pricing.

Liquidity tools

Figure 1. The SEPA Consultancy Liquidity Manager Simulator

Figure 2. Fundtech's GLRM – Nostro Ladder dashboard

Fundtech's Global Liquidity & Risk Management

(see Figure 2) enables *Operational Excellence*, providing a single global view of intraday liquidity exposures, with automated decisioning, real-time alerts and Management Information, and intraday forecasts and reconciliations, resulting in the reduction of costs and risks with better customer experience due to timely execution. Key features include:

Consolidation

Provides a single point for the collection and concentration of liquidity data.

Flexibility

Can be tailored to fit the specific processing and operational needs of any financial institution.

Global applicability

Can be used with worldwide branches of the same bank, or unrelated entities that are sharing the same infrastructure.

Liquidity management: some key questions

- How aware are senior management of your bank's collateral requirements and liquidity flows each day – and how aware are they of the risks in these flows?
- Does your bank suffer from heavy outflows, with debits tending to occur early in the day, while credits arrive later?
- How efficient is your collateral management – do you allocate collateral to meet your payment needs, or manage your payments to minimize the collateral required?
- How much of your liquidity is tied up in nostros to support SWIFT payments that could be cleared internally?
- How accurate are your intraday liquidity forecasts, how often are they updated, and what opportunity is there to influence behaviors to improve them?

The value that Accenture can deliver—and our track record in tailoring solutions to client needs—is based on the combination of the subject matter expertise underpinned by our proven ability to work closely with these leading software providers and products. For example, we have recently implemented Fundtech's Global Liquidity & Risk Management product at a large European bank.

[1] Basel Committee on Banking Supervision Consultative document: *Monitoring indicators for intraday liquidity management* – Issued July 2012 for comment by 14 September 2012.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 266,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$27.9 billion for the fiscal year ended Aug. 31, 2012. Its home page is www.accenture.com.

Accenture Payment Services

Accenture Payment Services helps banks improve business strategy, technology and operational efficiency in five key areas: core payments, card payments, digital payments, transaction banking, and compliance, risk, and operations. Accenture and its more than 1,500 professionals dedicated to payment engagements can help banks simplify and integrate their payments systems and operations to reduce costs and improve productivity, meet new regulatory requirements, enable new mobile and digital offerings, and maintain payments as a revenue generator. More than 50 clients worldwide have engaged Accenture Payment Services to help them turn their payment operations into high-performing businesses.

For More Information

To find out more about how Accenture can help your bank transform its payments strategy, operations and capabilities, please contact:

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