Commercial Bank

Automating FX Hedging for Healthcare Companies — Don't Go At It Alone

As the world pushes past the pandemic, healthcare companies are working to firm up their long-term growth strategies. Though management often seek growth through acquisitions, sometimes the opposite is needed to reinvigorate the company and unlock long-term value. Among the largest healthcare players, there has already been a number of high-profile announcements where larger companies are splitting and creating separate healthcare units. Others are spinning off specific units and assets to allow greater focus and flexibility to pursue divergent growth paths.

Planning for change

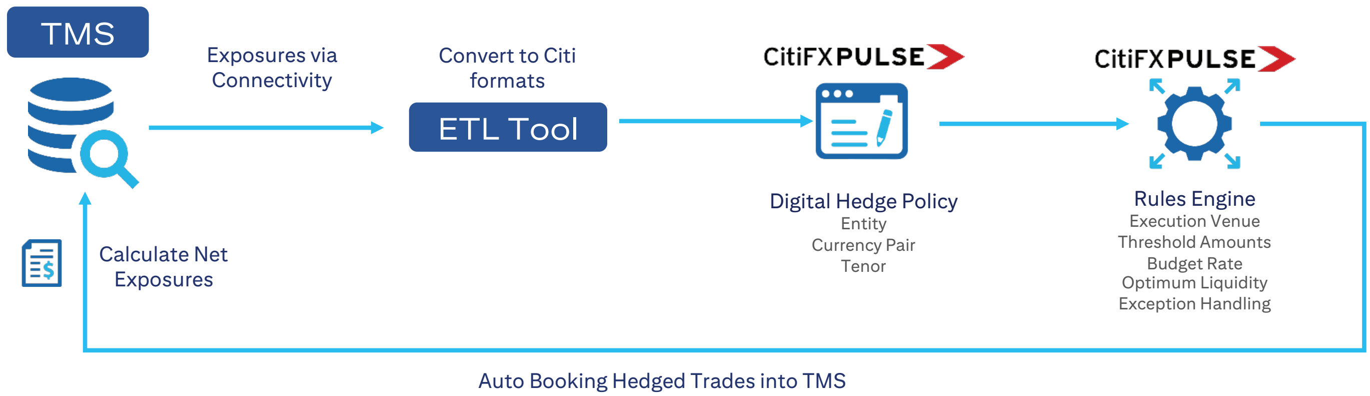
Post separation, the independent entity likely have to set up its policies, processes, and systems. For treasuries, planning for the separation starts before day-one as teams from both sides review capabilities and coordinate handoff. Sometimes, to ease transition, a Transition Service Agreement is agreed to for the parent to continue to perform certain treasury functions for the new company. The best way forward, however, is in-house so treasury can have control and visibility over its data. This involves setting up company specific plans that tie back to the organization's strategic vision (do you want global visibility? real-time data? and automation?)

Don't go at it alone

Building up a new treasury may involve leaner organizations and potentially fewer resources than what is available at a larger, legacy company. Often, technology must pave the way. One avenue for the new independent company is to leverage platforms that banking partners offer and explore technological solutions that may suit its workflows and strategic plans. An example of such partnership is in the workflow related to FX risk management and dealing.

FX is a key area for the new treasury if company has a global footprint. Movements in the exchange rates – some can be upwards of 10-15% YOY change – can have material impact on operational results and financial metrics, thus affecting investors' assessment of the company.

Figure – 1: FX automation and connectivity – Genesis by CitiFX Pulse®



Source: CitiFX

Transition toward operational excellence

For the new company, efficiency and operational excellence can be achieved with technology. Companies can decide on the degree of integration and connectivity that fits with their overall goals. Post-trade straight-through-processing (STP), for example, while not new, is a versatile starting point. Many banking partners can offer proprietary STP solutions that aggregate executed FX trades and automate delivery of transaction details to a company's treasury management system (TMS). The ability to automate post-trade processes can produce many benefits by reducing error rates and speeding up processing and reconciliation. However, STP does not have to apply only to post-trade. Citi's CitiFX Pulse can help companies create greater efficiency in pre-trade workflow with connectivity and auto-execution of hedging trades.

In the pre-trade, CitiFX Pulse can be connected to a company's TMS to receive data related to FX exposures. The transmit frequency can be set to a desired interval: if payables and receivables are booked daily, data can be sent daily to capture new positions. The transmitted data can be converted and reconciled to a Citi format (with embedded ETL technology), creating FX exposures within the Exposure Management module. Critically, the module will allow companies the ability to implement their hedge policy and be in control of defining the auto-execution rule. Incoming exposures are hedged according to the pre-specified rules and executed trades are subsequently fed back to the TMS to calculate net position for next day.

Benefits of automating the hedging process

In CitiFX Pulse's automated FX risk management solution, a company can run an efficient risk management process by leveraging technology to run end-to-end processes. Doing so would allow the new treasury to reduce time and resources expended on non-strategic activities (reconciling formats, inputting trades, manually calculating net exposures to hedge). Moreover, when exposures and trade data are connected, risk monitoring can be better supported and updated on a timely basis. With volatile currency market conditions expected to continue, accurate FX data will be critical to allow companies better insight and make more informed decisions.

For more information about how Citi Commercial Bank can assist you and your team, please Contact Us.

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