Managing Liquidity During Turbulent Times:
Strategies for Cash Management

While the situation that treasurers and finance leaders globally are dealing with is unprecedented, the cash investment fundamentals remain constant: security; liquidity and risk mitigation. At a time when so many issues seem uncertain, going ‘back to basics’ can create greater certainty and confidence in treasurers’ ability to meet the unknown challenges ahead.

As part of Citi’s current series of podcasts, some of our market and investment experts came together recently to discuss experiences and best practices in cash investment during a crisis. This paper includes some of their conclusions, but you can find out more by accessing the podcast, as well as other podcasts in the Managing Liquidity During Turbulent Times series, on Citi’s Knowledge Exchange Center.
Making investment policies fit for purpose

Although many treasurers review their investment policy regularly, reviews that have taken place over the past decade or so have taken place under relatively benign market conditions. Consequently, treasurers should look at their investment policy and ensure that it remains valid and meaningful given the extraordinary market situation. Most investment policies seek to achieve a balance across the investment fundamentals of security, liquidity and yield, often in a balance of around: 60-70% security; 20-30% liquidity (depending on the short-term needs of the business) and maximizing yield, at no more than 10%. During a crisis, however, this balance may need to shift, and treasurers also need the ability to respond quickly to changing liquidity and credit conditions, and their own business needs, which are also moving quickly as familiar cash flow and liquidity dynamics are disrupted.

Keeping your cash safe
At times of crisis, preservation of cash remains a constant, and managing counterparty risk plays a major role in this.

Bank deposits. In comparison to the Global Financial Crisis, banks have generally entered the current period of volatility with less leverage and stronger capital positions. Many treasury departments will have credit criteria based on banks’ credit ratings and/or balance sheets, or Tier 1 capitalization ratios as an indication of a bank’s credit quality. It is important to have clarity over the policy, and eligible counterparties upfront. If there is a risk of counterparty credit limits breach, or insufficient eligible counterparties, this needs to be resolved quickly to avoid delays in placing cash.

Money funds. Intuitively, investors may prefer the diversification of money funds that offer some buffer against the potential of default. Furthermore, monitoring credit negative watches and downgrades of investments and counterparties can be complex for corporate treasurers in particular given that cash investment is only one element of their responsibilities. However, it is important to check how a default in a constituent of the fund will impact the overall pricing. By now, most funds will have rebalanced their portfolio but the situation remains very dynamic and fluid.

Making cash available
While security is a constant, liquidity becomes an even greater consideration during a crisis, particularly given the uncertainty of cash flows. As a result, treasurers may invest for a shorter duration than usual. This may trigger an exception in the investment policy, which should be resolved quickly to avoid disruption in treasury’s liquidity efforts.
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Earning a return on cash
Maximizing returns is not a priority during times of crisis, particularly in a low or zero interest rate environment. More important than generating yield is to avoid losing capital value. Companies that have a surplus cash balance and a high degree of confidence in their cash flow forecasts, may consider segregating their cash into immediate, 10 day, 20 day etc. cash to take advantage of higher rates further up the yield curve. However, for many corporate treasurers dealing with high levels of forecast uncertainty, maintaining capital value and being able to access this to meet liquidity requirements across the business will be the primary focus.

Automating liquidity management and cash investment
In the past, pockets of cash held in accounts, countries and currencies outside regional or global treasury centers may have been less of a priority than today. Likewise, local cash investments held with lower grade counterparties and instruments may not have been so important, particularly if this cash generated a return. Today, liquidity is more valuable than ever, and treasurers are keen to ensure that all cash can be mobilized across the business, and centralized and invested according to the company’s investment policy.

As a result, many treasurers are expanding their use of automated liquidity structures such as Citi’s global concentration engine. By doing so, they can mobilize cash via zero and target balancing across 84 countries globally to centralize cash balances for group liquidity management and investment. Given the heightened FX risks that accompany the crisis, a growing number of clients are opting to take advantage of our integrated foreign exchange capabilities to aggregate foreign currency balances into their chosen currency and account.

Having centralized cash into a regional or global treasury center, the Citibank® Online Investments portal offers treasurers the ability to automate their investment process, together with automated tools to identify and compare funds that meet a company’s investment criteria, create portfolio models and ensure compliance with investment policies.

Automating liquidity management and investment can reduce the burden on hard-pressed treasury teams.
Checklist: Cash investment in a crisis

☑ Check that your firm’s investment policy remains fit for purpose. Does it allow enough flexibility to meet your security and liquidity objectives in a constrained market environment?

☑ Validate your treasury processes for monitoring counterparty credit risk. If there is a risk of limit breach, how will you deal with this?

☑ What liquidity management solutions are already in place? Is there scope to expand the reach of these solutions to minimize cash left in accounts, countries or currencies where the risk could be greater?

☑ Could the use of automated investment solutions reduce the investment burden and ensure policy compliance, particularly given current resource constraints?

To learn more, listen to the Strategies for Cash Management podcast here.