

MODERNISATION OF CASH MANAGEMENT SERVICES IN THE BANKING INDUSTRY

Rani Joseph Palatty* Dr. S.M.Misal**

*Research Scholar, D.C.R.C. Savitri Bai Phule Pune University A-301, Alif Apartments, Karnik Road, Kalyan West, Thane District, Maharashtra, India.

**Research Guide, C.T. Bora College, Shirur Pune, Maharashtra, India.

Abstract

Cash Management Services is the backbone of the banking industry. It earns the bank huge profits. In the wake of the modern techniques being introduced, the cash management system is undergoing through a enormous transformation. Banks around the world are learning to adapt to a different and rapidly changing business Cash is the life line of any business. It is very important factor to any government or company. It helps to achieve the objectives of the business and helps to carry the smooth working of an orgnisation. The very prominent process in an economy is the cash flow and currency flow within the economy. It has unique assets and most important to quality system to be able to maintain the flow of cash and currency between outlets, Banks and customers. With the changing environment of today's era bank has faced a huge challenge that is change, banks needs to be very careful and updated with the changing standards. To overcome the shrinking deposits, to increase the number of accounts etc. bank has to be updated and come up with the new technique Cash Management Services. Hence the objective of this paper is to study the Role of cash management system in Banking Sector.

Keywords: Cash Management System, Banking Industry, Cash, Bank Customers.

Cash Management System is an integral part in the banking system. To manage cash flows many companies entrust banks to look after their monetary activities. The banks offer a array of services such as processing cash, vendor payments, providing bulk credits processing bulk salaries of the employees.

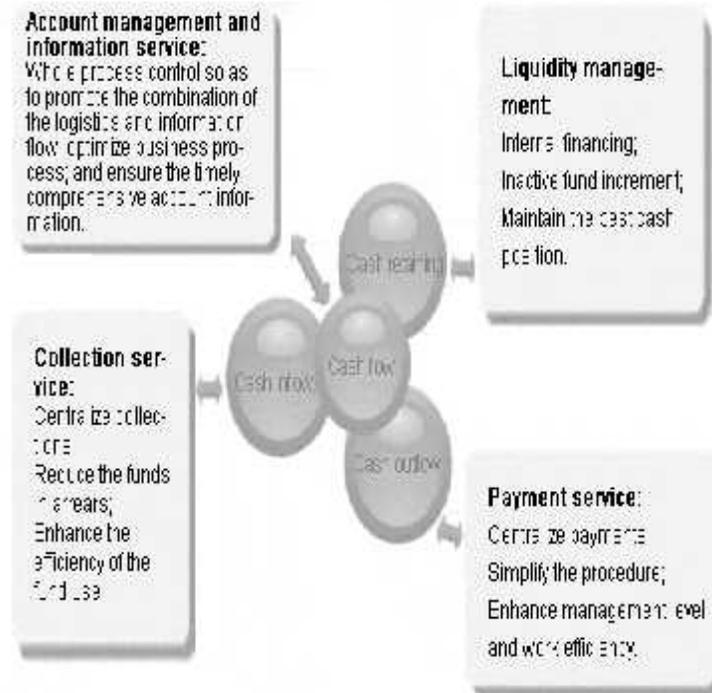
Some of the names of few prominent banks who offer Cash Management Services to their clientele are as listed below: -



Source:-<http://www.npci.org.in/CTSPProcessFlow.aspx>

There are lakhs of employees working in the organization.

The advent of Cash Management Services came into picture with the advent of Multi-national Companies and Banks in the Indian arena. Cash Management Services (CMS) was started by the banks so as to provide better services to their esteemed clientele. The services included Payments and Clearing, Receivable and Mandates etc



Source: <https://www.icbc.com.cn/ICBC/EN/CorporateFinance/SettlementService/CashManagement/IndustrySolutionMultinationalCompanySolution/>.

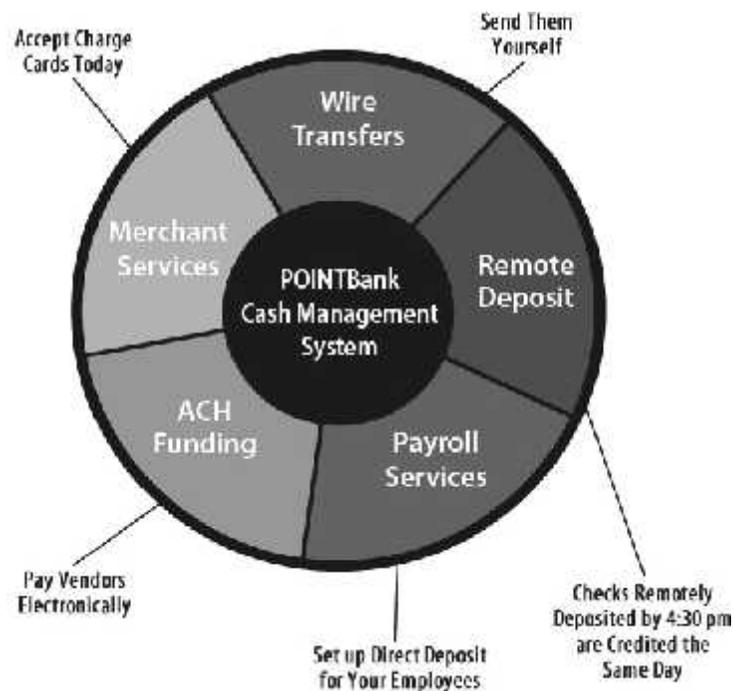
Below is the CMS ranking of the banks published through a survey by Euro money poll which is published in October every year. The survey includes corporate houses all over the world that avail the CMS facility. It takes into consideration various parameters to arrive at the conclusive winner.

Rank by overall volume, published October 2013			
2013 ranking	2012 ranking	Name	Score
1	1	HSBC	12,225
2	2	Citi	8,170
3	3	Deutsche Bank	4,960
4	5	BNP Paribas	3,649
5	4	Bank of America Merrill Lynch	3,534
6	6	Royal Bank of Scotland	2,447
7	7	UniCredit	2,174
8	8	Commerzbank	1,739
9	9	JPMorgan	1,319
10	10	Standard Chartered	1,307

Source: https://en.wikipedia.org/wiki/Cash_management

Since the advent of online banking, the hold on CMS is now reducing and as it a revenue generatoro the banks, the banks are now trying to introduce new products into their CMS facility .
With the CMS services in the banking industry stagnant, there needs to be a way to grow the industry and introduce new products.

The below diagram shows, how the cash management cycle works in the banking context.



Source:-<https://www.pointbank.com/business/business-services/cash-management/>

What is Cash Management?

According to Investopedia, “The corporate process of collecting, managing and (short-term) investing cash. A key component of ensuring a company's financial stability and solvency. Frequently corporate treasurers or a business manager is responsible for overall cash management.

Successful cash management involves not only avoiding insolvency (and therefore bankruptcy), but also reducing days in account receivables (AR), increasing collection rates, selecting appropriate short-term investment vehicles, and increasing days cash on hand all in order to improve a company's overall financial profitability”.

According to HDFC Bank “Cash management is the stewardship or proper use of an entity’s cash resources. It serves as the means to keep an organization functioning by making the best use of cash or liquid resources of the organization. At the same time the organizations have the responsibility to use timely, reliable and comprehensive financial information systems.”

Products Offered by Banks Under Collections (Paper and Electronic)

1. Local cheque collections.
2. High value (0 Day clearing) Once.
3. Magnetic ink character recognition (MICR) (three day clearing) Outstation cheque collections.
4. Cheques drawn on branch.
5. Cheques drawn on correspondent bank .
6. Cheques drawn on coordinator locations and cheques.
7. House cheque collections.
8. Outside network cheque.
9. Cash collections.



10. ECS-Debit.
11. Post dated cheque.
12. Invoice collections environment.
13. Capital market .

History of Cash Management Services

Cash management services have started a long time ago in the banking industry. It is in the recent times that CMS has grown by leaps and bounds. CMS services were started by multinational banks in 18th century after the industrial revolution took place. In the earlier times cash management services included only delivering and picking up of cash from the trading houses to banks and vice-versa. When the trading activities increased, the banking activities increased as well. With the increase in banking activities, the CMS also increased. The bankers enlarged the CMS activities to include safety vaults, deposits and loan activities so as to increase their profits as well fund their operational activities. As the bankers started to look for ways to expand their business and increase their profits, the activities of CMS also increased correspondingly.

The following is a list of services generally offered by banks and utilised by larger businesses and corporations:

Account Reconciliation Services: Balancing a checkbook can be a difficult process for a very large business, since it issues so many checks it can take a lot of human monitoring to understand which checks have not cleared and therefore what the company's true balance is. To address this, banks have developed a system which allows companies to upload a list of all the checks that they issue on a daily basis, so that at the end of the month the bank statement will show not only which checks have cleared, but also which have not. More recently, banks have used this system to prevent checks from being fraudulently cashed if they are not on the list, a process known as positive pay.

Advanced Web Services: Most banks have an Internet-based system which is more advanced than the one available to consumers. This enables managers to create and authorize special internal logon credentials, allowing employees to send wires and access other cash management features normally not found on the consumer web site.

Armored Car Services: Large retailers who collect a great deal of cash may have the bank pick this cash up via an armored car company, instead of asking its employees to deposit the cash.

Automated Clearing House: services are usually offered by the cash management division of a bank. The Automated Clearing House is an electronic system used to transfer funds between banks. Companies use this to pay others, especially employees (this is how direct deposit works). Certain companies also use it to collect funds from customers (this is generally how automatic payment plans work). This system is criticized by some consumer advocacy groups, because under this system banks assume that the company initiating the debit is correct until proven otherwise.

Balance Reporting Services: Corporate clients who actively manage their cash balances usually subscribe to secure web-based reporting of their account and transaction information at their lead bank. These sophisticated compilations of banking activity may include balances in foreign currencies, as well as those at other banks. They include information on cash positions as well as 'float' (e.g., checks in the process of collection). Finally, they offer transaction-specific details on all forms of payment activity, including deposits, checks, wire transfers in and out, ACH (automated clearinghouse debits and credits), investments, etc.

Cash Concentration Services: Large or national chain retailers often are in areas where their primary bank does not have branches. Therefore, they open bank accounts at various local banks in the area. To prevent funds in these accounts from being idle and not earning sufficient interest, many of these companies have an agreement set with their primary bank, whereby their primary bank uses the Automated Clearing House to electronically "pull" the money from these banks into a single interest-bearing bank account.

Lockbox services: Often companies (such as utilities) which receive a large number of payments via checks in the mail have the bank set up a post office box for them, open their mail, and deposit any checks found. This is referred to as a "lockbox" service.

Positive Pay: Positive pay is a service whereby the company electronically shares its check register of all written checks with the bank. The bank therefore will only pay checks listed in that register, with exactly the same specifications as listed in the register (amount, payee, serial number, etc.). This system dramatically reduces check fraud.



Sweep Accounts: are typically offered by the cash management division of a bank. Under this system, excess funds from a company's bank accounts are automatically moved into a money market mutual fund overnight, and then moved back the next morning. This allows them to earn interest overnight. This is the primary use of money market mutual funds.

Zero Balance Accounting: can be thought of as somewhat of a hack. Companies with large numbers of stores or locations can very often be confused if all those stores are depositing into a single bank account. Traditionally, it would be impossible to know which deposits were from which stores without seeking to view images of those deposits. To help correct this problem, banks developed a system where each store is given their own bank account, but all the money deposited into the individual store accounts are automatically moved or swept into the company's main bank account. This allows the company to look at individual statements for each store. U.S. banks are almost all converting their systems so that companies **can** tell which store made a particular deposit, even if these deposits are all deposited into a single account. Therefore, zero balance accounting is being used less frequently.

Wire Transfer: A wire transfer is an electronic transfer of funds. Wire transfers can be done by a simple bank account transfer, or by a transfer of cash at a cash office. Bank wire transfers are often the most expedient method for transferring funds between bank accounts. A bank wire transfer is a message to the receiving bank requesting them to effect payment in accordance with the instructions given. The message also includes settlement instructions. The actual wire transfer itself is virtually instantaneous, requiring no longer for transmission than a telephone call.

Controlled Disbursement: This is another product offered by banks under Cash Management Services. The bank provides a daily report, typically early in the day, that provides the amount of disbursements that will be charged to the customer's account. This early knowledge of daily funds requirement allows the customer to invest any surplus in intraday investment opportunities, typically money market investments. This is different from delayed disbursements, where payments are issued through a remote branch of a bank and customer is able to delay the payment due to increased float time.

In the past, other services have been offered the usefulness of which has diminished with the rise of the Internet. For example, companies could have daily faxes of their most recent transactions or be sent CD-ROMs of images of their cashed checks.

Cash management aims at evolving strategies for dealing with various facets of cash management. These facets includes the following, Cash management services are an integral part of the banking system. However with the introduction of new banking systems over the past few years this system has now grown stagnant. There is a need arising to introduce new methods to sustain the CMS facility in the banking sector.

Cash Management services provides various services to the government and the companies. They also cover various types of risk like currency risk, interest rate risk, bank and counter party risk, etc.

Banks are willing to offer cash management services when the relationship is good with the said company. Companies opt for a bank either by traditional approach i.e. relations with the bank globally or by law in the country where the company is situated. Banks look at the credibility of the company while offering the basket of the cash management services.

The banks may also look into earning growth or the product success in the market. A trend analysis with respect to the competitor is also taken into account for determining business. There are various lending facilities which also the bank provides the companies for its business.

The company in turn allows the bank to set up systems for them for smooth functioning of core cash management systems. An agreement is drawn between the company and bank listing the product and services to be offered. This agreement is known as Cash Management Service Facility Agreement There are clauses such as financial ratios to be maintained which the company has to adhere to.

The CMS has grown to be stagnant in the wake of new ways of banking being launched and the customers being more tech-savvy and the online solutions available at the tip of the fingers. There needs to be introduced new array of products and services for the banking industry especially in the field of telecom mandates where the volumes of processing the payments are high by the client due to high volumes of billing done by them.



Cash Management Services was once known as the backbone of the banking system. The banks could have cheques picked up facility and processed at locations where there were no branches. But since the advent of online banking in India the system is slowly beginning to be redundant.

The clientele prefer to process their transactions through net banking platform rather than mode of manual transactions. The use of cheques is decreasing day by day. At this point in time the banks need to invent something interesting in Cash Management Services. The banking regulations are also very stringent in the country where the Banks need to approach the regulator to implement new things in the Banking Sector. With hostile factors in place the future of Cash Management Services seem bleak. There needs to be new innovation in the Cash management field to remove the latency.

Bibliography

Reference Books

1. Adam, Peter S & William A. Harrison, co-editors. Essentials of Cash Management. Bethesda, Md: Association for Financial Professionals, 2001.
2. Bort, Richard. Handbook of Corporate Management. New York, NY: Warren, Gorham & Lamont, 2001.
3. Parkinson, Kenneth L. & Raymond P. Ruzek. How to Prepare an RFP for Treasury Services. Hopewell, NJ: Treasury Information Services, 2000.
4. Seidner, Alan G. Corporate Investments Manual: Short- and Intermediate-term Fixed-income Securities. New York, NY: Warren, Gorham & Lamont, 1989.
5. Bhattacharya, A.K. and G.W. Gallinger 1991. Value, capital structure, and liquidity: a simulation. In Advances in Working Capital Management, Kim, Y.H. and V. Srinivasan, ed., Jai Press, Inc.

Journal and Magazine

1. Meckler, Jack M. The Corporate Guide to Payments System Risk. Bethesda, Md: Association for Financial Professionals, 1995
2. Baumol, W.J. 1952. The transactions demand for cash: An inventory theoretic approach. Quarterly Journal of Economics. (November), 545-556.
3. Srinivasan, V. 1974. A transshipment model for cash management decisions. Management Science 20:10, 1350-1363.
4. Srinivasan, V. and Y.H. Kim 1986a. Deterministic cash flow management: State of the art and research directions. Omega. 14:2, 145-166.
5. Srinivasan, V. and Y.H. Kim 1986b. Payments netting in international cash management: a network optimisation approach. Journal of International Business Studies. 17:2, 1-20.

Thesis

M. Phil and Ph. D. cases.

1. Paper on The Evolution of Treasury Cash Management during the Financial Crisis by Paul J. Santoro.
2. Paper on Cash Management Behavior Of Firms And Its Structural Change In An Emerging Money Market by ERKKI KYTÖNEN Faculty of Economics and Business Administration, Department of Accounting and Finance, University of Oulu, OULU 2004.

News Papers & News Letters

1. Leahy, Robert. Leahy Newsletter. Tustin, Ca: Leahy Newsletter, Inc.
2. Dotsey, M. 1984. An investigation of cash management practices and their effects on the demand for money. Economic Review. Federal Reserve Bank of Richmond. 3-12.
3. Adrian, Tobias, Christopher Burke, and James McAndrews. 2009. "The Federal Reserve's Primary Dealer Credit Facility." Federal Reserve Bank of New York Current Issues in Economics and Finance 15, no. 4 (August).
4. Adrian, Tobias, Karin Kimbrough, and Dina Marchioni. 2011. "The Federal Reserve's Commercial Paper Funding Facility." Federal Reserve Bank of New York Economic Policy Review 17, no. 1 (May): 25-39.
5. Armantier, Olivier, Sandra Krieger, and James McAndrews. 2008. "The Federal Reserve's Term Auction Facility." Federal Reserve Bank of New York Current Issues in Economics and Finance 14, no. 5 (July).



Website

1. <http://www.ukessays.com/dissertation/literature-review/literature-review-about-cash-and-cash-management.php>.
2. http://books.google.co.in/books?id=oYJ9AwwAAQBAJ&pg=PA3&lpg=PA3&dq=review+of+literature+in+cash+m anagement&source=bl&ots=ePBOnqOpVX&sig=yymaybzgAW-hS3IjgWi8hL_ta3w&hl=en&sa=X&ei=BD8VVMnWMMnJuATF1oCwCw&ved=0CC0Q6AEwAg#v=onepage&q=review%20of%20literature%20in%20cash%20management&f=false.
3. http://en.wikipedia.org/wiki/Cash_management<http://www.investopedia.com/terms/c/cash-management.asp>.
4. <http://www.npci.org.in/CTSPProcessFlow.aspx>.