SPECIAL REPORT: 2020 CASH MANAGEMENT SURVEY

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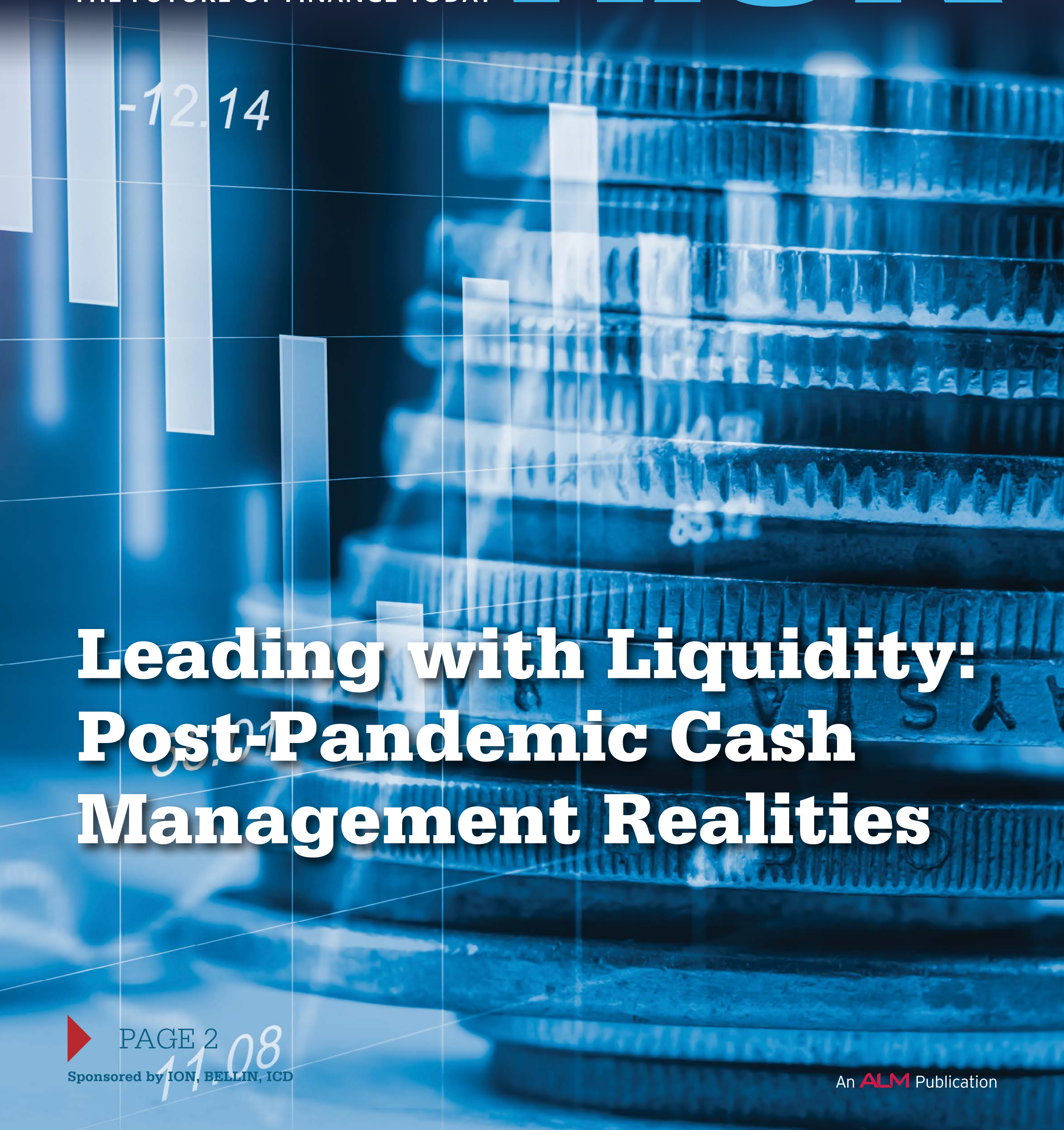

Leading with Liquidity: Post-Pandemic Cash Management Realities

PAGE 2

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Leading with Liquidity: Post-Pandemic Cash Management Realities

Treasury & Risk's "2020 Cash Management Survey" shows the swift, far-reaching impacts the Covid-19 pandemic has had on cash management policies and practices.

BY ERIC KRELL

This spring, corporate cash reserves soared far higher than any treasury professional anticipated in late 2019. That's one finding of *Treasury & Risk*'s "2020 Cash Management Survey."

The rapid, unexpected increase in cash reserves marks one of several ways Covid-19 walloped cash management policies and practices this year. The survey results also show that::

- Maximizing immediately available liquidity is treasurers' new priority for short-term investments;
- Treasury leaders plan to make significant changes to policies governing cash and short-term investments within the next year; and
- Large global organizations plan to repatriate more of their cash and short-term investments.

Above all, this year's survey results show that "the world is markedly different than we expected when we entered 2020," says BELLIN's director of sales engineering, Lena Pennington.

To navigate cash management in the post-Covid world, treasury leaders are also increasing their reliance on technologies that support remote operations and internal collaborations. They are upgrading their treasury solutions to generate sharper visibility into liquidity, more precise forecasts, stout fraud defenses, and a more nuanced understanding of their organization's true risk appetite.

"Treasurers protect funds and ensure liquidity," Pennington adds. "When the economy is turned upside down, performing these activities looks and feels wholly different compared to what we had grown accustomed to in the past few years."

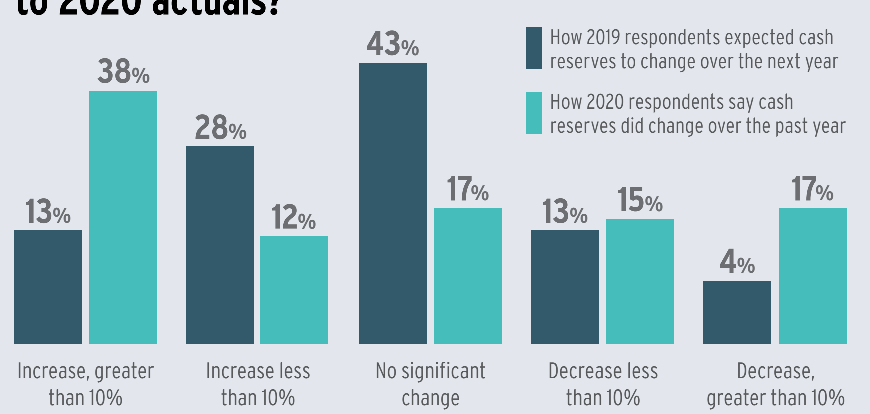
Pandemic Prompts a Dash for Cash

The "2020 Cash Management Survey" was completed in September by treasury professionals across all industries. The industry distribution was fairly even; however, the highest proportions of survey respondents work in financial services (18 percent of respondents), real estate/construction (13 percent), professional services (13 percent), and manufacturing (11 percent). Twenty-six percent of respondents work in companies with annual revenues of more than $10 billion; 25 percent in companies between $1 billion and $10 billion; 11 percent between $100 million and $1 billion; and 38 percent in companies under $100 million in revenue. Fifty-two percent of respondents' organizations are net investors, while 48 percent are net borrowers.

The survey findings reflect the pandemic's effects on corporate cash management capabilities in several areas. One of the most arresting results appears in comparing how 2019 survey respondents expected cash reserves to change in 2020 vs. what actually happened to cash once Covid materialized. In 2019, almost half of survey respondents expected no significant changes to their organization's cash reserves, and only 13 percent expected cash reserves to increase by more than 10 percent. Yet nearly 40 percent of 2020 survey respondents reported that their company has increased cash reserves by more than 10 percent in the past year. (See Figure 1.)

FIGURE-1

How did cash reserves change—2019 expectations to 2020 actuals?



When the pandemic struck the U.S. in March, companies "had no idea how broadly or deeply the virus would impact demand for their goods and services, supply chains, and workforces," notes ICD CMO Justin Brimfield. "With global uncertainty, all companies followed the same plan: Get liquid and protect cash."

Michael Kolman, chief product officer for ION Treasury, describes the reaction by treasury functions as immediate. "Everyone went into protection mode in terms of liquidity," he recalls. "It was crucial to have real-time visibility into cash reserves while understanding exactly how much liquidity they had in credit facilities."

Many companies drew down the entirety of those credit facilities in response to the daunting uncertainty that prevailed during the pandemic's early weeks. Those drawdowns plumped cash reserves across industries, both in companies that were decimated by pandemic-related shutdowns (e.g., travel, hospitality, entertainment) and in those boosted by Covid-19's new realities (e.g., grocers, e-commerce, manufacturers of personal protective equipment). The widespread move to boost liquidity stemmed from economic uncertainty and the inability, at least early on during the pandemic, to forecast with much accuracy or confidence more than a few weeks out. "There wasn't a forecasting playbook for the pandemic," notes MSTS CEO Brandon Spear.

Since April, the speed of cash management adjustments within many industries has been remarkable, especially given these actions were executed amid the widespread shift to remote work that the pandemic triggered. The survey results suggest treasury professionals are well-aware that major uncertainty could flare up at any time during the next 12 months. Rock-bottom interest rates will affect short-term investment decision-making for the foreseeable future, and many other pandemic impacts—rising delinquencies, bankruptcies, business closures—will continue to affect cash management practices into 2021. "An enduring fact as we get into the unknown for next year," Brimfield says, "is that uncertainty rules."

In response, treasury leaders and their teams appear intent on controlling what they can control, namely their treasury technologies, banking relationships, the frequency of their liquidity forecasts, and their collaborations with business colleagues.

Exactly half of survey respondents said their organization increased its cash reserves in the past year—and 38 percent did so by more than 10 percent. (See Figure 2.) Covid-related uncertainty was, of course, the leading culprit. Uncertainty in the global business climate is the factor that survey respondents identified most frequently as a

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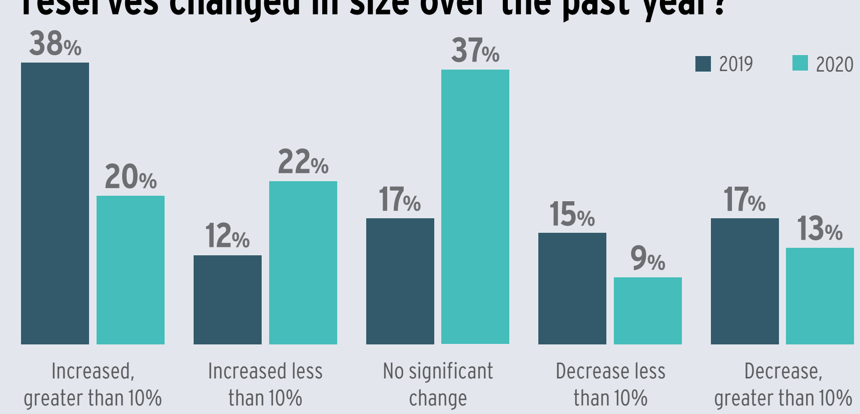
FIGURE-2

To what degree have your organization's cash reserves changed in size over the past year?



Money Markets: From Crisis to Opportunity in the Never Normal

By Justin Brimfield, Chief Marketing Officer, ICD

The global pandemic has brought unprecedented stress in business and markets. Much like various stages of grief, the effects of the coronavirus could be characterized in three phases – shock and awe, learning to cope, and optimizing for opportunity. These three phases tell the story of how investor behavior and the role of technology have played out in a snapshot in time during the crisis, and what it means for treasury moving forward.

To frame where we are today and gauge where we might be headed, it is helpful to take a step back to understand what treasury organizations experienced, beginning in March this year. The initial shock and awe of the pandemic saw treasury organizations de-risking their investment portfolios. They drew down credit lines, issued debt and shifted assets, moving aggressively into money market funds to ensure same day liquidity.

Using data from ICD, an independent portal provider of money market funds and other short-term investments, the picture of what happened in treasury from March through August 2020 is clear. During this stretch, the average daily balance in assets traded on ICD Portal increased 89% over the same period in 2019.

In Figure 1 we see a significant move out of prime funds in early March and into short term government money market funds. As treasury teams learned to cope with the new work-from-home environment and the continual realignment of forecasts to business operations, we see cash levels remain elevated. Uncertainty continued to fuel the need for liquidity, but treasury organizations sitting on large cash balances also began to look for opportunity.

Facing an extended period of potentially zero rates in government investment products, investors looked for opportunities that offered excellent liquidity but also more yield than found in traditional government money market funds. Investors came back into the prime space – and not just back to pre-COVID levels, but above pre-COVID levels. A notable 27% of respondents to *Treasury and Risk*'s 2020 cash survey also indicated prime funds were part of their portfolio composition.

Adding Value with Portal Technology

ICD's data against the industry benchmark shows that sophisticated investors acted more quickly than the rest of the market to de-risk portfolios in the early phase, and later identified opportunities in the money markets. This agility to move easily in and out of funds, and at the right time, is in no small part aided by technology.

Statistically and anecdotally, technology is proving its value during this crisis. The ability to gain transparency into holdings, model what-if scenarios, and use compliance and reporting tools to better communicate with the C-suite is empowering for treasury teams that need to make and defend informed investment decisions, quickly.

With 46% of respondents to *Treasury and Risk*'s 2020 cash survey reporting use of a non-bank investment portal exclusively, or alongside a bank portal, visibility and access to the markets seem to be key. ICD enables unbiased access to a wide selection of investment products all along the short-term investment curve, primarily in the money markets, but also extending further out in the ultra-short space, and even into traditional fixed-income bond funds. With over 400 active clients across 65 industries in 43 countries, an average daily balance of approximately $210 billion is running through the platform. As ICD is an independent provider whose sole focus is on treasury, activity on ICD Portal serves as a proxy for treasury's investment behavior.

Identifying Tradeoffs & Opportunities

During the March through August time frame, the opportunity was prime, but different opportunities emerge at different times. So how can treasury teams rely less on intuition and more on data? Earlier this year, ICD created a new quantitative model with The Carfang Group called Beta(m)™. Based on Modern Portfolio Theory (MPT) and adapted to the money markets, Beta(m) provides a quantitative approach to assessing tradeoffs and identifying opportunities among money market instruments.

Beta(m) can help treasury teams understand the complex relationships among money instruments to determine opportunities. With Beta(m), teams can perform dynamic asset allocation among approved instruments and effectively communicate decisions or propose policy changes to executive management.

Going Forward in Money Markets

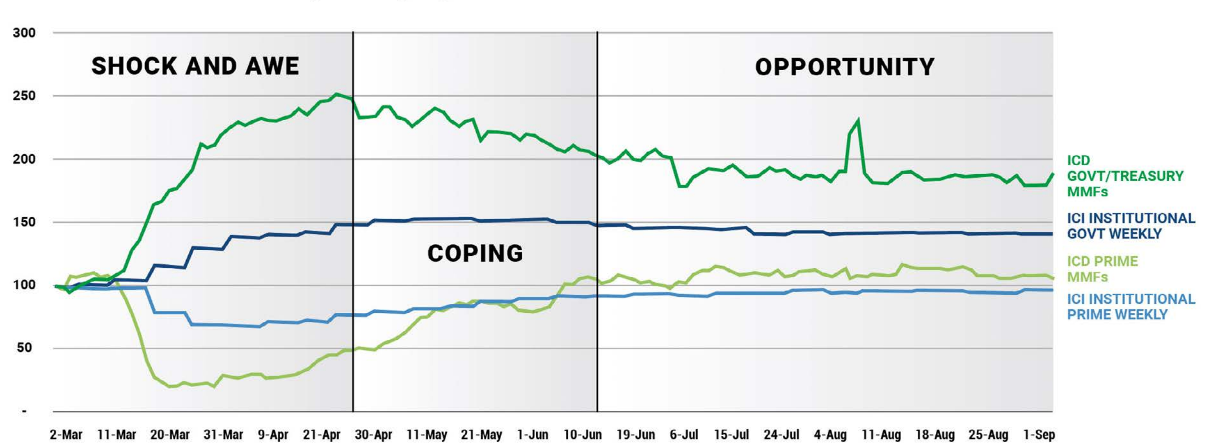
Unlike the global financial crisis of 2008, which was a credit event, the initial market fall out from the pandemic was a crisis in confidence. Monetary actions by central banks – from quantitative easing to the Money Market Mutual Fund Liquidity Facility in the U.S. – were put in place to ensure market liquidity, not to prop up failing or fundamentally flawed products.

Given the historical performance of money market funds over these past two market shocks, institutional investors seeking liquidity and security can keep yield in mind as well. In a balanced portfolio, these fund types are not mutually exclusive. While we've seen fluctuations from product to product, the adage of a risk-weighted, balanced portfolio is still the tried and true method for managing short-term cash – teams only need the right technology, tools and insights to do so.

Discover the opportunities available to you. Contact ICD for a review of your portfolio and technology options.

ICD
Treasury First
icdportal.com

ADB by Category - ICD Portal v. ICI Institutional



Source: ICD Portal and ICI Weekly Assets

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driver of change in their level of cash reserves (See Figure 3.) It's also the factor they cited most frequently as having the greatest impact on cash reserves. (See Figure 4.)

"In March, in addition to all of the uncertainty related to the pandemic and the way in which it would impact our organization as a health provider, we started to sense that the liquidity in the markets was seizing," recalls Michael Angelini, treasurer at Yale New Haven Health. "At that point, we knew we needed to ensure that we had sufficient liquidity—enough dry powder—to withstand anywhere from 12 weeks to 12 months of impaired operation. We immediately went to the markets and executed a number of public and private transactions that equipped us with more liquidity than we've ever had."

Andreas Meyer, head of treasury at German automotive supplier Brose Fahrzeugteile, says that as the pandemic took hold, his team began conducting daily analyses of the company's global cash position "as the basis for short-term cash management decisions," among other steps designed to maximize liquidity.

Following uncertainty in the external environment (27 percent), survey respondents were most likely to cite an increase in operating cash flows (23 percent), a reduction in operating cash flows (19 percent), or an increase in corporate debt (9 percent) as the single factor that has had the greatest impact on their cash reserves in the past year. Massive federal stimulus programs helped many companies increase their debt at a critical juncture, although these low-interest loans will need to be paid back in most cases.

The widespread cash influx "has facilitated business viability and proper investment in assets that will generate future cash flow," notes Ken Thomas, managing director of Protiviti's business performance improvement practice. Yet, Thomas also points out, the sustainability of these programs is uncertain, especially as several countries enter an election cycle. Plus, he says, "the ongoing impact of Covid-19 and the lack of clarity over the possible timing and availability of a vaccine continue to drive uncertainty."

Survey respondents share Thomas' perspective. When asked to choose the one factor they expect to have the most impact on their company's cash reserves over the coming year, 27 percent selected "uncertainty in the global business climate," followed by an increase in operating cash flows, a reduction in operating cash flows, and share buybacks and/or dividends. Changes in corporate debt levels or capital expenditures—in either direction—received a negligible number of votes.

Based on these factors, nearly half of all treasury professionals expect their organization's cash reserves to increase during the coming year: Twenty-one percent expect an increase of greater than 10 percent, and 27 percent expect an increase of 10 percent or less. Thirty-eight percent of respondents expect cash reserves to decrease in the next year, and only 14 percent expect no significant change in their cash reserves. (See Figure 5.)

Craig Jeffery, managing partner of Strategic Treasurer, has similar expectations. He notes that low interest rates are expected to continue, "which means the cost of carrying extra cash is suppressed, and this drives toward maintaining higher levels." Earlier this year, borrowing levels were pushing banks up against their lending ratios, but Jeffery expects that pressure to subside as the overall economic situation continues to improve. Still, although access to cheap cash should make banks more willing to lend, Jeffery points out that loan covenants likely will become more severe.

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FIGURE-3

Over the past year, which factors have impacted your company's cash reserves?

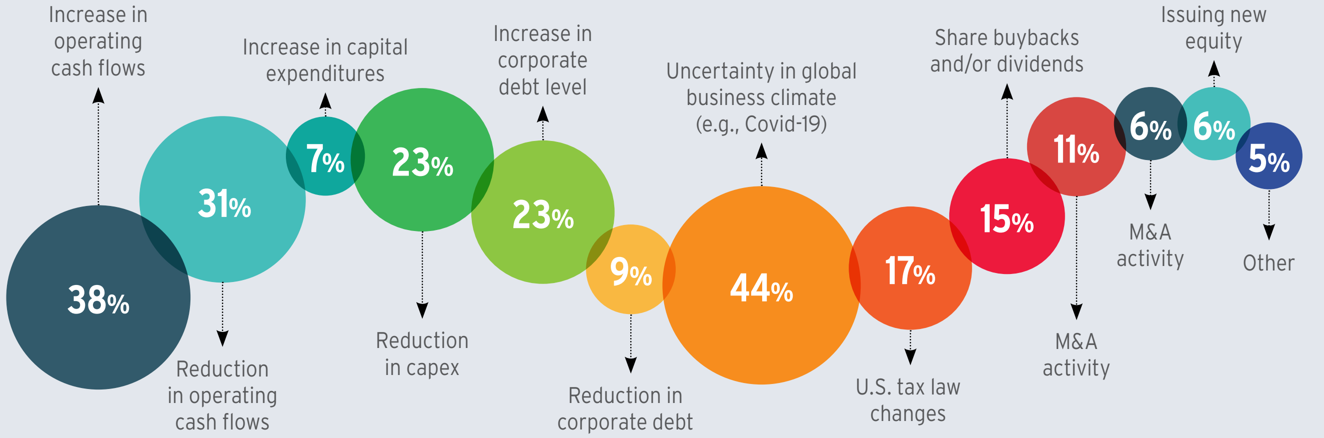
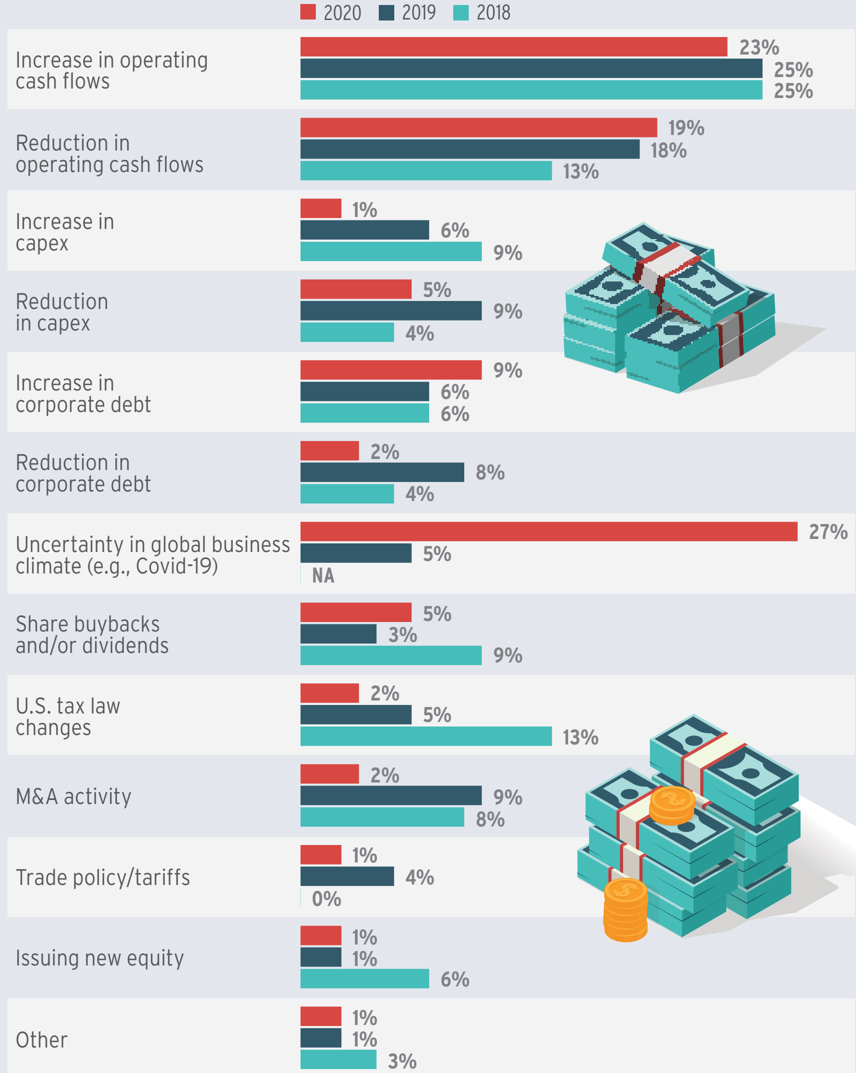


FIGURE-4

Over the past year, which one factor has had the most impact on your company's cash reserves?



Report: the State of Cash Management

Connected Treasury: Network-driven Cash Management

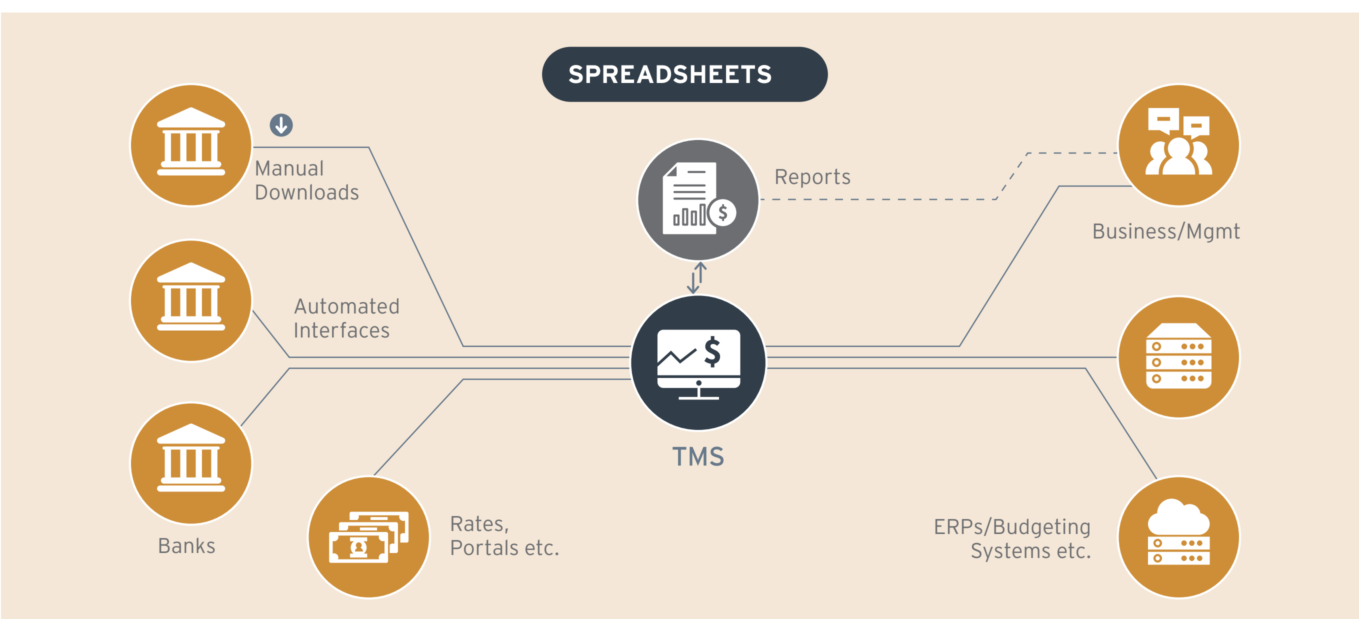
If you've always dreamed of becoming a treasurer, then you're pretty unique! More often than not, this is a career you "stumble upon" while working in accounting or a wider finance role. Many organizations have relatively few people working in treasury, often spread across different locations. And yet, treasury touches upon so many different business areas and success factors.

If you're one of these essential treasury networkers, you know just how vital but also fragile connections to others can be. All the more reason to know which bridges to build and how! Become a part of a sustainable yet responsive network: internally, with counterparties, and in the wider business community. This way you will make more informed decisions, cover all your bases, and optimize liquidity.

Network-driven cash management: getting connected to people

There's a reason few people actively seek out a career in treasury, but so many stay: it's alive – the pulse of an organization. Whichever way the business goes, it's reflected in its cash flow: how sales is performing, what business divestitures or acquisitions the board chooses to make, how supplier relationships play out, and how many people are hired. Welcome to network-driven treasury and cash management!

As a treasurer, you can derive and add value by getting connected. You need relevant and complete data from all stakeholders, departments and systems. What's more, knowing what's on the mind of business leaders around the organization allows treasury to anticipate changes to cash flow patterns, subsidiary funding requirements, or large capital expenditures. Since cash flow always reflects the nature of the underlying business, treasury needs a good understanding of how the business works and what industry and market forces may impact its performance.



Network-driven cash management: getting connected through technology

Efficiently gathering this information from the various parties and systems in your organization can be much more easily achieved by working on an open treasury platform: one that easily connects to banks, business systems, BI solutions, and finally, the end user. When end users draw a real benefit from using a system, the adoption rate is much higher, in turn improving the quality of your input.

How often have we downloaded an app that sounded great but never actually used it because keeping track of our to-dos on sticky notes seemed so much easier and familiar? Technology needs to add real value, not just promise exciting new features. The same counts for business systems. What really helps you and your end users in your daily cash management?

- No more having to log into multiple bank portals to pull bank reports or make payments
- Reconciling bank transactions on all accounts in one place
- Submitting forecasts and funding requests
- Achieving cost savings and efficiencies thanks to managing data and cash in one platform

Whether cash sweeps across different banks are managed through a treasury management system, or single-bank physical or notional pooling structures are established with banking partners, concentrating cash ultimately creates the basis for optimized cash management.

Getting connected beyond your organization: benefitting from the wider community

The future of business systems is the reality we see in our personal worlds today: the value of an application for example is often based on the insight the community adds to it. The likes of Waze and Google Maps allow us to see how bad traffic is or where a cop may be sitting on the highway based on the insights of the community using the app. On Twitter, we can see what is trending across the world; on Kindle we can see how many people highlighted certain sections in the books we are reading. What is useful to one person, is valuable insight to the wider community.

In the same manner, businesses will benefit from cash management insights beyond their own organization and across the wider business community:

- Being able to tell whether the recently updated bank details for a specific vendor were used by 20 other companies in the past two weeks is a likely indicator that the details are valid
- Or perhaps the account details belong to a verified community member marking the account "safe to pay"
- Short-term cash flow predictions may become more accurate as insights into the activity of the business is available even before it goes through the banks

Benchmarking and "best in class" highlights will allow the community to reach higher. The possibilities of community insights across our business ecosystems are endless and usher in a new era in enterprise systems.

The cash management community: considerations and limits

As with all data sharing, privacy and preserving competitive advantage are of the utmost importance. Data anonymization techniques, such as adding "noise" that prevents detecting the underlying data without skewing insights, will need to be applied. With the right controls and restrictions applied, however, community intelligence will add an additional layer of automation and intelligence to the office of the treasurer and lift cash management to a new level.

Learn more about how leveraging network-driven cash management can transform your treasury.

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"Easing concerns about access to cash and continuing economic progress should allow cash reserves to decline," Jeffery says. However, "since there is not much room to add more cash, a negative turn in the economy may keep cash levels at an elevated level."

Other wildcard factors, such as a surge in pandemic-related shutdowns, may also affect cash reserves in the coming year. "We know from experience that business failures lag the recession that was their catalyst," notes David Schmidt, managing director of A2 Resources. "After the Great Recession of 2008, bankruptcies peaked in 2009 and stayed at that high level in 2010, not returning to pre-recession levels until 2014. This time around, it could be even worse—and in addition to causing bad debt losses, [it would] also create rolling supply-chain disruptions."

Schmidt also says the credit bureaus are reporting that delinquencies are beginning to rise. "How this emerging situation is handled will determine its impact on cash flow," he adds. "Receivables are not the relatively stable asset they were for the past seven or eight years."

Virtual Cash Management Improvements

As treasury leaders look ahead to 2021, they appear committed to improving the technology, processes, and relationships that support their cash management activities. In addition to causing intense uncertainty, the pandemic also clarified—at times, painfully—how effectively cash management processes operate under extreme stress.

Treasury professionals will continue to work on improving their relationships with banks, says BELLIN's Pennington. "Relationships with banks are incredibly important during these times," she continues, stressing that it is important to maintain access to funding without breaching covenants when accounts receivable (A/R) levels stray into risky territory.

Technology improvements are also garnering attention. Meyer credits Brose's recent implementation of a global payment platform that integrates with the company's treasury management system for enabling and/or supporting several helpful responses to the cash management challenges brought on by Covid-19 disruptions. The payment platform's automated delivery of digital bank account statements along with other intraday information heightened his treasury function's visibility into readily available "trapped cash" around the world, helped optimize liquidity by lowering the maximum cash balances allowed at the operating-company level, supported increased foreign exchange (FX) swap trading, helped expand a reverse factoring program, and enabled working capital management improvements that resulted in a shorter cash conversion cycle.

Treasury-specific technology, as well as tools supporting data analytics and virtual collaborations, figure prominently among the cash management improvement areas that treasury professionals are currently targeting:

Working from home. In addition to its economic stress, the pandemic spurred a massive shift to a work from home (WFH) model. Treasury executives managing newly remote teams confronted challenges related to leadership, virtual collaboration, cybersecurity, and tech support.

If you were printing and mailing invoices, how did you continue performing those activities during the early stages of the pandemic, when everyone began working from home?" MSTS's Spear asks. "If you relied on checks, as opposed to using ACH transfers and other EFTs [electronic funds transfers], how did you adjust? We saw payment cycles pushed to the right for no other reason than the accounts payable people were unable to get to the office for a period of time. If there's a silver lining to these types of problems, it's that increasing and enhancing automation has become a top priority for CEOs across most industries.

Jeffery also expects to see rising investments in new treasury and finance technology. "The WFH environment and the impact of Covid-19 radically affected some working capital processes, particularly in the beginning of the pandemic," he reports. "This impacted cash and liquidity planning, which in turn led to an increase of automation, directly and immediately, as well as the growth of significant plans to automate and outsource parts of A/P [accounts payable] and A/R."

Optimizing treasury technology. If a pandemic of this magnitude had struck 10 years ago, the transition to virtual offices would have been far more problematic, notes ION Treasury's Kolman. "Current technology—especially cloud technologies—enabled many companies to maintain business continuity early in the pandemic," Kolman says.

ICD's Brimfield also credits cloud-based technology with easing treasury teams' transition to remote work. Treasury applications "built with open architectures have really shown their value, as they integrate easily with other systems in treasury's technology stack," he says. "The pandemic has proven that end-to-end workflows, through which data passes back and forth between cash forecasting tools and investment portals, is a requirement deeply rooted in pragmatism. Teams need to work together, remotely, and with the same data—with a single source of truth—for effective execution, reporting, and analysis."

Forty-nine percent of survey respondents indicate that they've either sustained or accelerated plans to acquire new treasury technology in the face of the Covid-19 crisis. Brimfield says this figure jibes with what he's seen at ICD. "We've on-boarded 30 percent more clients during this period than during the same period the year before," he reports.

Sharpening forecasts. Cash forecasting has recently received renewed interest, notes Deloitte Risk & Financial Advisory senior manager Erik Smolders. A Deloitte survey of business executives shows that forecasting difficulties mark the greatest impediment to working capital management efforts—far greater than receivables delays, liquidity reductions, or even delays related to the shift to remote work.

Smolders observes that treasury functions are investing in skills and technologies to sharpen their forecasting capabilities. Protiviti's Thomas agrees, noting that these improvements are especially needed within treasury functions where "forecasting processes and technologies are not enhanced and predictive, which would otherwise allow them to make timely, data-driven decisions."

Strengthening internal relationships. Liquidity concerns during the early weeks of the pandemic forced many treasury professionals to communicate more frequently, and under high-pressure conditions, with a larger group of internal partners than usual. The value of those interactions and ongoing work with the rest of the business hinges in large part on treasury's relationship management skills.

"We've always had a cash forecast that looks out 90 days, and I would say that's been rock-solid," says Yale New Haven Health's Angelini. "Once the intensity surrounding the pandemic began to increase precipitously in late March, we decided that we needed to apply the same level of accuracy and discipline to a forecast that looked out 12 months." To achieve that accuracy, the treasury team met and communicated more frequently with most, if not all, managers throughout the business who make decisions affecting cash flow. "We ramped up communications and reporting with our operating units—our stakeholders—to gain a more precise view of what was going on with cash," Angelini

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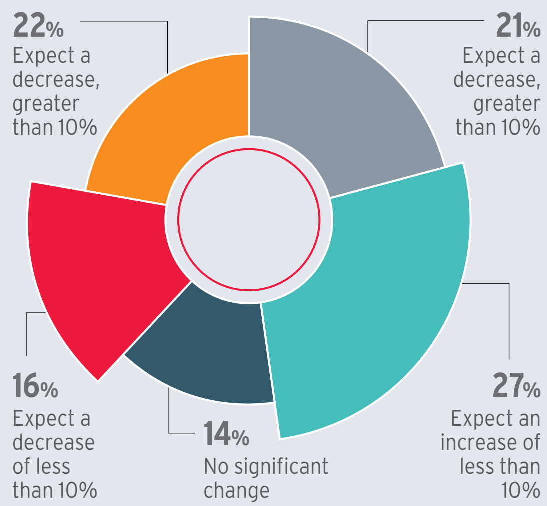
FIGURE-5

To what degree do you expect your organization's cash reserves to change in size over the next year?



How COVID has infected corporate treasury and is treasury technology an effective vaccine?

Survey shows dramatic changes in actual vs. expected results

The "2020 Cash Management Survey" shows exactly how treasurers need to adapt as the world around them changes. The dramatic changes between expectations and actuals are a result of the global business climate brought about by the COVID-19 epidemic.

Just as we have incorporated social distancing and mask wearing into our daily lives, corporate treasuries have been forced to pivot processes to fit current conditions. Many treasury teams placed a renewed focus on liquidity. COVID-19 has been a catalyst for elevating the importance of cash forecasting, planning for uncertainty, and shifting to a more liquid investment policy. People's working environments were uprooted overnight introducing new pain points symptomatic of Treasury departments reliant on manual processes, paper documents and filing procedures, and fax transmissions.

Some Treasury departments have fared better than others. What do these teams have in common? They are all further along in their digitalization journey. Digitalization occurs when processes are executed in ecosystems of integrated applications. In a treasury department this ecosystem consists of:

- Workflow management tools to enable treasury processes
- Analytics, dashboards, and reporting tools for data-driven decisions
- Connectivity to banks, online trading and investment platforms, and market data
- Integration with internal applications such as ERPs and business intelligence tools

Best in class treasury operations rely on controlled application-driven workflows found in Treasury Management Systems (TMS). Companies and their treasury functions can vary quite significantly. Therefore, it is important to select a TMS that is a good fit for your treasury needs, which can change over time. This is why ION Treasury provides choice in TMS with seven solutions (Wallstreet Suite, Openlink, IT2, Reval, ITS, City Financials, and Treasura). Each TMS is designed to meet the varying treasury complexities and different stages of technology adoption; and enables ION customers to move seamlessly from TMS to TMS. Once thought as 'nice to have', the TMS and digital workflows they provide have become essential. Treasury Management System (TMS) providers have solutions for these challenges and today any company that has invested in treasury software has reaped the benefit of their investment over the last few months. Let us explore some examples of how digitalization has empowered companies and "protected" treasury processes from disruption in the current climate.

Dealing with uncertainty

ION TMSs provide treasury with visibility to cash, exposures, and liquidity and they are all available in the cloud. In March, offices closed, and nearly overnight treasury teams began working from home. ION customers reported no impact to business continuity of treasury processes managed in the TMS. Companies continued to maintain cash visibility, manage counterparty exposures, and execute end-to-end processes as if they were in the office. Smaller companies wanting to gain immediate access and visibility to cash can look to solutions like TreasuraSpark, ION's new and quick-to-setup cash management system. Establishing system connectivity to your banks can further reduce personnel and process risks exposed by the COVID-19 environment. With a TMS, treasury teams could shift focus and navigate the unchartered waters in the wake of the pandemic.

Given the looming uncertainty Treasury teams acted fast to convert liquidity into cash. As highlighted in the 2020 Cash Management Survey, 38% of companies' cash reserves increased by more than 10% in 2020 compared to 20% of companies in 2019. 44% of these companies attributed uncertainty in the business climate as a reason for this increase. The sudden focus on liquidity preservation brought about by the Covid-19 pandemic resulted in corporations drawing down on their facilities. For many companies left unprepared for the liquidity event, new facilities had to be negotiated from lenders.

Dealogic, an ION Group company, and provider of data and analysis on the global credit markets, provides further insight into the magnitude of this corporate borrowing activity. By the end of March, three weeks after the WHO declared COVID-19 a pandemic, companies drew down from existing and newly arranged revolving credit facilities (RCF) as follows:

- 12% of companies had drawn 100% of their available facilities at the peak of the crisis in March 2020.
- From Q4 2019 to Q1 2020, drawn RCF volume saw a rise of 200%.
- Real estate, technology, oil, and gas and auto/truck were the top sectors drawing on existing RCF lines in March 2020.
- New investment grade revolver credit facilities (RCF) volume jumped by 58%, (Feb 2020: $79bn to $186bn in March) and reached $200bn in April the highest monthly volume in 2020 so far. The industries dominating these drawdowns were finance, utility, and energy and consumer products.
- The retail industry saw a 400% increase in RCF borrowing in April 2020.
- In parallel, drawn RCF volume saw a 200% rise between Q4 2019 and Q1 2020, confirming the rush to shore up liquidity.

One looming question is how long cash reserves will remain at elevated levels. According to Dealogic, by the end of June, drawn RCF reduced by 45% as corporations began to repay it. ION's Dealogic and Debtwire platform also monitored credit market movements as they unfolded and provided critical research, in-depth legal analysis, and data-driven insights.

Interestingly, 49% of respondents are now using online bank portals to help offset some interest cost in the all-time low deposit interest rate environment.

In March as companies moved more cash on balance sheet, they looked for safe liquid investments to hold their cash. Global Government Money Market Funds (MMFs) gained $911B assets, according to Goldman Sachs Asset Management. March inflows exceeded the full year 2019 inflows of $600B. As cash moved into MMFs, the Cash Management Survey highlighted that companies looked to online portals to transact in MMFs with 49% of corporations responding that they turned to a digitalized platform for the investment process. While COVID-19 crimped interest rates and excess liquidity, in any rate and liquidity environment optimizing excess cash for yield can return incremental profits to treasury, pushing the department into proactive profit taking from cash optimization. To meet the need of customers seeking to keep excess cash liquid while optimizing yield, ION offers all customers the free option of connecting to money market funds through Goldman Sachs. This connectivity provides the world's most modern and seamless experience so customers identify their cash position and invest in or redeem from money market funds. This connection also ensures that the daily value of their fund positions is updated automatically.

Operational risks exposed

Some risks to treasury were not market-related but were brought about by manual and paper-based processes. Six months into the pandemic, we surveyed ION Treasury customers in North America, on which processes continue to be a struggle. The survey highlighted that many treasury teams had to develop new operational processes as new requirements emerged and had to be implemented. One example where some changes have occurred is in bank documentation. Prior to COVID-19, banks that had insisted on "wet signatures" for many forms of documentation had become open to the use of secure digital signing tools like DocuSign. ION quickly updated the workflows of IBAM, its bank account and fee management system, to include digital signing for the secure signing and management of all bank account management-related documentation.

Cloud-based ION Treasury Management Systems proved their value by continuing to operate smoothly and avoiding the need to revert to BCP scenarios. The ability to work from home, collaborate on daily cash management, and manage market risks would not have been possible without clients' investments in a cloud based TMS. "ION has invested in cloud delivered solutions significantly over the last 10 years, to ensure our systems are available from any location in a secure manner," says Michael Kolman, Chief Product Officer at ION Treasury. During the pandemic, ION has helped numerous ION Cloud customers transition their solutions to securely enable their employees to work from home.

Workflow in a separated world

Social distancing highlighted the challenges of in-office processes where treasuries relied on the proximity of their team to get things done. Many surveyed clients' teams met more frequently to ensure more consistent communication. They realized that even though a "work from home" scenario was indeed planned for in their business continuity plans, using bank portals was markedly more difficult. Digital workflows, integral to any ION TMS, allow the team to collaborate on processes and track progress using business intelligence tools and a variety of real-time dashboards from any device. ION has incorporated many APIs to better integrate with trading portals, ERPs, HR systems and more.

Conclusion

With many businesses feeling the effects of the economic slowdown brought about by COVID-19, and the "work from home" normality, it is easy to conclude that companies felt justified for their investment in treasury technology. 49% of companies with planned investments in treasury technology this year did not reduce their goals according to the survey. In fact, some even increased their commitment to treasury automation during this time.

"We have seen a marked increase in the number of companies seeking treasury automation since the pandemic began. Customers have been shifting processes into systems and expanding functionality used" says Kolman. Companies are seeing the value in digitalization and the criticality of the TMS in managing through financial crises. Treasury technology has proven to be an effective vaccine against the risks to treasury processes highlighted by the COVID-19 epidemic. The good news is, to get started you do not need lengthy trials. Getting started on your digital journey is only a video conference away.

(cont'd from page 11)

adds. "I think that practice will have good long-term effects for us."

Reducing fraud. While fraud prevention and detection represent a longstanding treasury focal point, the current environment is especially enticing to bad actors. "People are operating in crisis mode, and many may be concerned about their job security," BELLIN's Pennington says. "Working from home poses new information security and fraud risks. It's a ripe situation for fraudsters, which is why more people are getting those [fraudulent] urgent emails from the CFO or a supplier explaining that they need a payment right away."

The business email compromise (BEC) fraud attempts that Pennington refers to are on the rise. She points to a study from Abnormal Security that shows a 200 percent increase in BEC attacks focused on invoice or payment fraud from April to May 2020.

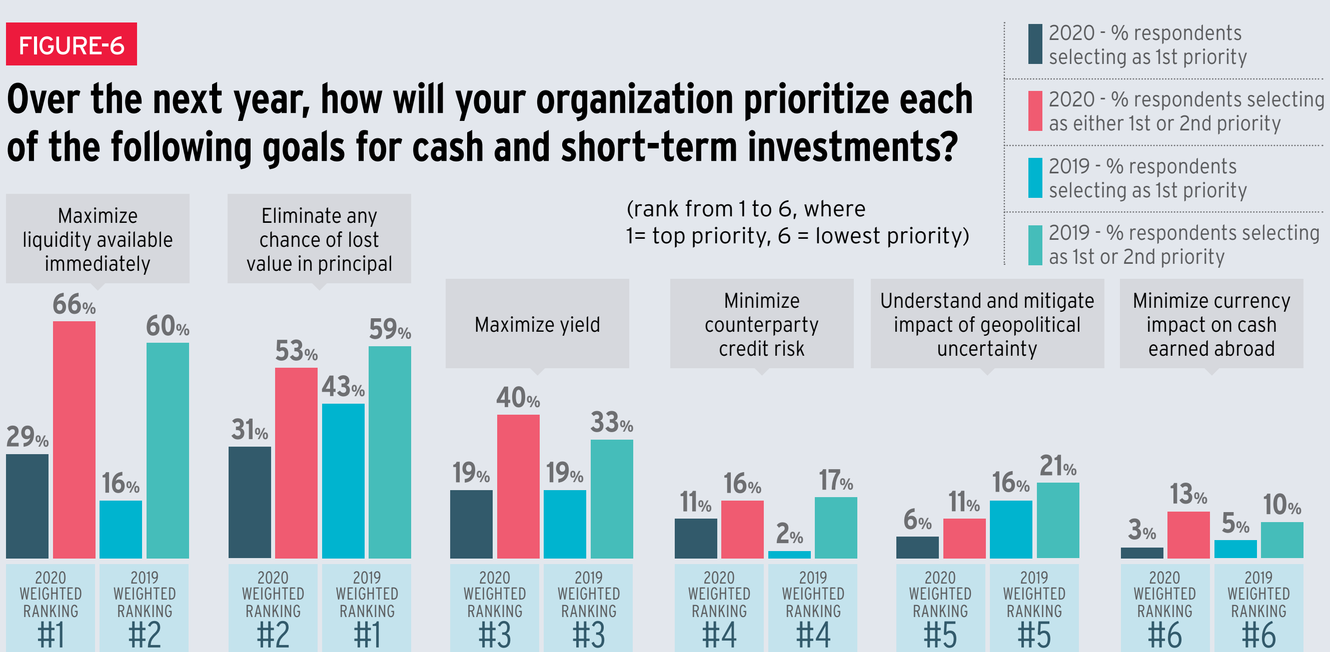
Investment Priority #1: Maximize Liquidity

Covid-19's impact on cash management is also apparent throughout treasury professionals' responses to our survey's questions concerning their investment priorities and changes to investment policies.

Compared with 2019 respondents, 2020 respondents are significantly less likely to hold cash and short-term investments in prime money market mutual funds (MMFs)—and inclined to hold a higher portion of cash and short-term investments in government/treasury money funds. Thirty-one percent of 2019 respondents held between 1 percent and 49 percent of their cash in prime MMFs, but only 20 percent of 2020 respondents do. Only 7 percent of 2019 respondents held more than half of their cash and short-term investments in government/treasury money funds, but 12 percent of 2020 respondents are currently doing so.

FIGURE-6

Over the next year, how will your organization prioritize each of the following goals for cash and short-term investments?



"There certainly has been a shift away from prime funds and back into government funds," ION Treasury's Kolman says. "That tells you that, while companies are investing, they're investing in highly liquid and safe investments to continue to preserve cash for all of the unknowns."

Kolman's point is supported by a slight but noteworthy adjustment in priorities for cash and short-term investment for the next year. Priorities in 2020 remained the same as in 2019 with one exception: In the "2020 Cash Management Survey," respondents selected "maximizing liquidity available immediately" as their number-one priority, enabling that goal to leapfrog 2019's top priority, "eliminating any chance of lost value in principal." (See Figure 6.)

"While this year's survey shows liquidity swapping first place with capital preservation as the top priority in 2020," Brimfield says, "staying liquid seems to be in the cards, with 48 percent [of respondents] expecting their cash reserves to increase over the next year."

As treasury groups in global companies address their reshuffled investment priorities, they appear focused on repatriating funds. This is especially the case for large global companies that operate in 10 or more countries. This subset of responding organizations holds significantly more cash and short-term investments abroad, and treasury professionals in these companies are more likely to report that they plan to reduce those foreign holdings in the coming year. Twenty-three percent of respondents from companies that operate in 10 or more countries plan a significant reduction in their level of cash held abroad, and another 18 percent plan a small reduction.

"There is a continuing focus on global cash management, including repatriation of cash held overseas," Smolders notes, "and the use of in-house bank structures to optimize the global use of cash."

When it comes to corporate policies for cash and short-term investments, 2020 respondents were notably:

- Less likely than 2018 or 2019 respondents to eliminate prime MMFs as a cash investment option, but
- More likely to remove other asset classes;
- Less likely to shorten allowable maximum maturities, and
- More likely to lengthen allowable maximum maturities; and
- More likely to increase the use of outside money managers.

As different as the world is today, compared with 12 months ago, it is important to keep in mind that additional changes and disruptions will challenge cash management policies and practices in 2021 and beyond—though hopefully those changes will not have the same magnitude as Covid-19.

Many companies in relatively pandemic-resistant industry segments have come a long way in a remarkably short amount of time. By July, more senior executives indicated to Deloitte that their companies were in growth mode (13.2 percent) than in crisis mode (11.1 percent). And the largest proportion of executive respondents to the Deloitte survey, 42.9 percent, indicated that their companies are in stabilization mode (defined as "stability established for liquidity").

As future disruptions challenge cash management policies and practices, treasury professionals will need to apply lessons learned from the current disruption. "One of the biggest challenges I've dealt with in my treasury roles is gaining a deep understanding of the risk appetite of the organization I work for," says Angelini. "We all talk about risk and how much risk we're willing to take, but do we truly know what that means? I felt this way in 2008 as well. During periods of extreme stress, you might hear your CFO or CEO say, 'Hey, why isn't our revolving credit facility $500 million rather than $50 million?'

"When you have true insights into worst-case scenarios, and how the leadership team tends to respond in these situations," Angelini concludes, "it gives you, as a treasurer, a better understanding of operational risks so that you can do your best to provide insurance against those risks. In those situations, you're more likely to hear, 'Wow, it's great that we had this credit facility in place and that we had thought about this in advance.'"

Eric Krell's work has appeared previously in Treasury & Risk, *as well as* Consulting Magazine. *He is based in Austin, TX.*

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