

Book Review: Cash management guide helps vets and newbies

Practical advice on
running payment operations

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Liquidity Strategies for Financial Institutions and Corporates: The Art of Cash Management. By John Bertrand. Searching Finance Ltd., 202 pp.

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Reviewed by Nahum Goldmann,
president, ARRAY Development, Ottawa, Canada. Goldmann is a corporate board
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publisher of the Journal of Internet Banking and Commerce.

This book covers a big void in contemporary financial literature that has been apparent with the rapid advance of novel payment methods. Writing in simple, but not simplistic, language, author John Bertrand attempts to describe the whole range and breadth of issues related to business and consumer transactional payments, not just to liquidity strategies or cash management. His book could be used both as a textbook for the newly minted bankers and as a comprehensive innovation guide by experienced product development managers in the financial industry and corporate treasurers' offices.

Importance of corporate liquidity

For businesses, liquidity problems have the potential of creating solvency concerns. As the book remarks, "It is still startling that most companies fail not through poor products, management of business strategy, but through cash flow." Even successful exporters/importers often need foreign currency liquidity--e.g., to support inventory abroad or marketing.

Today many businesses have a strong multinational component, if they are not largely multinational in nature. As a result, they are open to ever-changing politico-economic forces. With the global financial crisis' impact on world conditions, obtaining and managing international liquidity has become far more challenging than attaining domestic loans. Maintaining such a business necessitates conducting business in numerous currencies. So cross-border liquidity strategies must include such components as currency exchange, global money transfer, cash pooling/notional pooling, hedging, regulatory compliance, and establishing global corporate trustworthiness.

Bertrand strives to reconcile such complex processes, reducing them to the bare essentials, to help perplexed novices and experts alike navigate uncharted waters of digital banking. Numerous tables and figures clarify complex concepts.

A helpful feature: Every chapter starts with several key questions posed to the CFO, treasurer, or cash manager. Each chapter concludes with a small subsection on expected future trends, which typically deals with the digital transformation of the industry that is currently very much in transition.

"Chapter 1: The Three Levels of Cash Management" gives you a good taste of Bertrand's approach. He progresses from domestic cash management with a simple bank account to international cash management with two or more currencies to operations with highly sophisticated needs that require top expertise and a high level of automation. As much as the most sophisticated methods have been the purview of major league players, the book makes clear that some of these global management services have begun to trickle down, beginning to penetrate to mid-level and even small corporate or personal accounts.

Evolving cash management techniques and banks

The author, although an insider to the global banking industry and a veteran in both the U.S. and U.K. markets, does not gloss over the existential problem that the banking industry faces--clients that can bypass them.

Bertrand, who worked at Citibank among other institutions, notes that currently "... banks thrive on inefficiencies and ineffectiveness when moving money." Novel payment technologies have start to empower corporations by making banking fees more transparent and by providing new ways to circumvent banks altogether, thus jeopardizing their future profits.

Unless banks devise new value-added services to compensate for such losses, their future as providers to such clients might be endangered.

What I especially like about this book is that, in addition to describing both commonly used and relatively novel cash management services, the author makes it clear when a particular service might be to higher monetary advantage either of the bank or of the client. Bertrand sensibly stresses that no two corporations are alike and that different trading patterns necessitate diverse innovation and development approaches. Mostly the banks find the ways to monetize exception management with various surcharges, although sometimes the banks are under pressure to provide money-losing services, to keep the clients happy.

As well, the author's first chapter briefly describes quite complex legal and tax issues that must be kept in mind when conceptualizing some intrepid liquidity strategies. Even experienced international bankers might find much useful new information when reading the book. Neglecting local regulations might undermine carefully derived methods of international cash management and result in high fines; hence, it is imperative to consult experts who can guide the corporation through the uncharted waters of global payments.

Unfortunately, the author neglected to mention that such specialized and knowledgeable experts are quite uncommon even in the fairly developed trading nations. Although some corporations and banks attempted to run such services on their own with superficial expertise, they were often unsuccessful in their effort to reduce substantial overhead losses from international payment operations. Outsourcing to specialized payment hubs might ensure profitability of complex and risky international cash management.

A broad-ranging view
of the field

Subsequent chapters cover in sufficient details the critical issues of compliance, bank account structures, liquidity management and cash cushions, risk, the credit ladder and the investment pyramid, payments, foreign exchange, supply chain management and illiquid management.

In an interesting feature, the book concludes with four comprehensive cash service case studies. Each covers an advanced financial institution, and its subsidiaries and lead clients, including Wells Fargo and Citibank.

The only deficiency of this excellent book is less than ideal editorial effort in its publishing, resulting in numerous grammar errors and misspellings. Also, a paper edition makes less sense for a rapidly moving field such as cash management, and there is no need for it when so many North American professionals download digital books.

Hopefully upcoming editions will be published with more care. The need for good coverage of this critical, evolving topic is essential.

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