



Real-Time Automated Intraday Liquidity Management

for Banks and their
Corporate Customers

INTRADAY®

Summer 2020

The Covid19 pandemic has highlighted the need for bank and corporate treasury departments to have effective intraday liquidity management (ILM) systems and personnel. Like the global liquidity crash of 2008, today's crisis begs for real-time insights and action, yet there is an abundance of evidence that organisations underinvest in these capabilities.

“Cash is king...too much is expensive, too little is fatal.”

Ashley Dowson FCIB,
Chairman, INTRADAY Inc. August 2020

For most large banks, especially those with extensive capital markets and/or nostro services business units, intraday liquidity requirements comprise a considerable proportion of their total liquidity reserve.

Regulatory authorities have mandated “active” ILM, which has had the positive result of decreased usage of liquidity reserves and the need for external funding sources. Moreover, it has significantly reduced the contingent component of short-term liquidity requirements and daily collateral costs, saving millions of dollars off the annual bill for high-quality liquid assets.

Indeed, the tougher stress tests for both global & domestic systemically important banks have raised the bar for counterparty default scenarios¹ and the knock-on impact regarding short-term cash liquidity buffers and resolution planning liquidity metrics. These include a minimum operating liquidity (MOL) component that ensures a firm has sufficient liquidity to continue its operations during stress. Active ILM can lower the contingent liquidity requirement by reducing peaks in usage, thereby having a beneficial impact on MOL calculations.

The Questions Liquidity Managers Ask

- **Where is my cash liquidity and how available is it?**
- **How can I be alerted when I risk insufficient cash?**
- **Why can't I see one consolidated view of all bank cash?**
- **How can I forecast intraday with any degree of accuracy?**
- **What tools (and data) do I have to undertake scenario planning? In normal and stressed conditions**
- **How can I move from slower moving transactions. (physical checks) to near real time transactions? Allowing me to have access to cash all the time instead of overnight.**
- **How do I optimise my liquidity flow to cope with today's challenges?**
- **How can I eliminate internal transactions becoming excessively long or short...they should essentially be near perfect since I control them?**
- **Who are my main counterparties for intraday cashflows?**
- **How do I track my highest value flows, concentrations of risk etc?**
- **Which transactions can I net in order to reduce gross outgoings?**
- **What is my 'cost of funds' and who impacts this?**
- **With cost controls paramount during the pandemic, why am I adding burden to slim Treasury / Finance staffs without improving their technology?**
- **Why cannot I see rolling reconciled items automatically rather than have staff spend long hours reviewing transactions? Usually on D+1.**
- **Why is it so hard to align my real time bank files, with my AR / AP files and history files?**

¹ See <https://www.federalreserve.gov/publications/files/2020-dfast-results-20200625.pdf> for example

Locating Liquidity is Job One

Most organisations have improved their daily operations to deliver active ILM and reduce operational risks and inefficiencies. Many however, have multiple cash or securities sources that cannot be valued in real-time for various reasons. Collateral deemed less than ideal for HQLA can be thinly traded or difficult to price. This leaves buffers higher than required thus reducing bank returns, a situation made worse by the pandemic, which is driving margins down.

Seasoned cash desk managers have increased the intensity of intraday reporting where large sums are involved and their 'electronic blotters' improve daily. Some are implementing systems to prioritise payments so that management of the payments process can be improved on an ongoing basis. Others are reconsidering the trade-offs between self-clearing thru an agent bank, and intraday liquidity implications as a key consideration.

INTRADAY INSIGHT

Myopia vis-à-vis Legal Entities

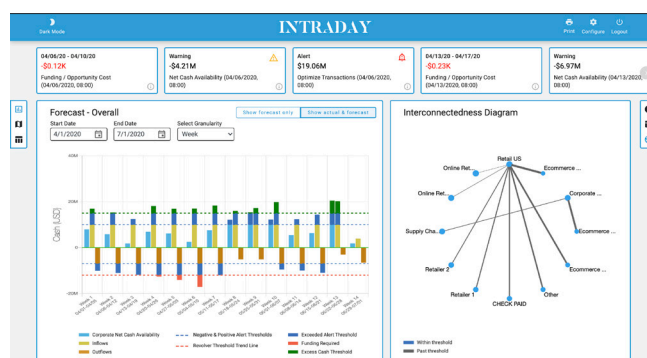
A desire for greater self-clearing to lower systemic risk can have unintended consequences. We helped one global bank identify that 45% of its GBP liquidity was sourced from a single Fund Management Group (operating with a dozen or more brand names).

Knowing the location and accessibility of intraday cash requires attention to detail, available structured data, and knowledge of the “payments plumbing” that is usually known by key personnel. Modern technologies can map locations of cleared/uncleared liquidity in real-time, automate associated alerts and

monitor trends if this human insight can be harnessed appropriately in smart data systems. INTRADAY has captured this with its CACHE products, for use by banks or as white-labelled for corporate clients.



INTRADAY CACHE can track internal and external liquidity consumption.



INTRADAY CACHE for Corporates also highlights ins vs. outs in your ecosystem.



The Power of Clear Visualisation

INTRADAY's years of experience has taught us that system users need clear, powerful visuals in order to make sense of complexity and generate critical information.

From our experience actually using these systems, the home screen must clearly identify:

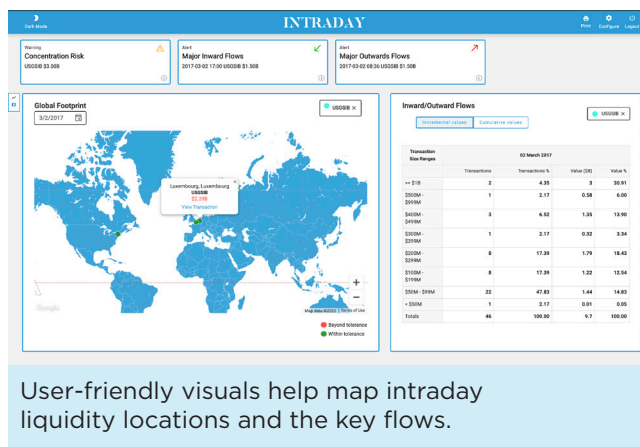
- overall cash position (whether in aggregate or at branch/business unit/client/counterparty level)
- what is likely to happen next (using advanced algorithms and/or the user's internal forecast) and
- what are the options to improve cashflow (netting, matching flows, rectifying imbalances etc.).

With clarity as the design objective, users should be able to quickly model various outcomes by selecting different data input files that:

- collate cash from relevant sources;
- run scenarios mirroring a developing situation; and
- undertake stress outcomes for executive and/or regulatory reporting.

In many ways, the world of corporate treasury is even more challenging when it comes to collating data sources, as these systems are often times a jumble of multiple banking formats, patched together ERP systems, all adapted to local requirements.

INTRADAY CACHE solves these complexity issues. We triangulate BAI files, GL inputs and real-time feeds in order to present a single dashboard that simplifies the visualisation of key data.



Attention to Detail - Timestamps

One of the biggest challenges for intraday reporting is acquiring time stamps for liquidity flows because many bank systems were designed for batch processing and end-of-day reporting. Banks typically do have time stamps within their core systems, but often times they are not exposed to their corporate clients.

When time stamps are not available, INTRADAY has developed techniques to re-build the chronology of payments by using unique reference data points and/or parsing intraday files at regular time intervals. This adds value to the bank's corporate relationships.

Flexible Forecasting

Leading banks have the data management capabilities, geographic coverage, subject matter expertise and technology resources to help their corporate (and bank) customers forecast with intraday liquidity tools. No longer is it acceptable to offer 'invisible' and time-consuming payment products (multi-day ACH, cheques & lockbox) and overnight PDF reports to corporates when the consumer world is moving to Open Banking with Real-Time Payments and other electronic tools such as Request To Pay.

The traditional cash desk blotter to monitor anticipated inwards and outward flows still has a role to play, in the same way that quarterly cashflow predictions in many corporates are the norm. However, major market stress events (such as Covid-19) cause havoc with intraday liquidity movements and point the way for real-time technologies to play a bigger role.

Deploying best-in-class forecasting algorithms with stress scenarios developed during previous crises and tracking the highest value flows (and counterparties / customers) can provide a robust buffer to the uncertainty of cashflows and visibility of intraday positions.

INTRADAY's CACHE offers this, as well as thresholds for revolvers that are auto populated to provide treasury / finance teams alerts well in advance of need.

INTRADAY INSIGHT

Beware of Costly Onboarding

An INTRADAY client had priced a transactional volume and a range of information/ reporting services, but omitted intraday liquidity demands exceeding \$200m-\$300m per day!

Reciprocal Returns

Deploying INTRADAY's CACHE with CFOs suffering a pandemic nightmare will capture the Real-Time Treasury wave and answer many of the questions facing this critical customer segment and create new revenues from information-based services. In addition, banks with the largest footprints stand a good chance of being able to nett bilateral flows to reduce the need for gross liquidity by the bank and its corporate clients.

Accurate cost allocation can also aid potential new income streams. The understanding of



how much intraday liquidity usage results from specific activities, clients, product lines and services is generally poor. Improved segmentation and transparency of total intraday usage into relevant categories such as transaction types, products, clients, financial market utilities (FMUs), legal entities etc., will allow leading players to identify measures that will influence client behaviour and inform product/service management. The added benefit of flattening intraday liquidity peaks and troughs will benefit both the bank and its customers.

INTRADAY's analytics incorporates 'cost of funds' pricing that can be adjusted by the user and incorporated within a firm's funds transfer pricing (FTP) framework. This will provide a more complete view of profitability, identify costly business unit or client activity, and incentivise better front-line decisions such as client acquisition, pricing, new product approvals.

INTRADAY INSIGHT

According to the CFO of a multi-billion dollar corporation:

"Visibility of cash liquidity pools and freeing lazy cash has never been a more significant need. Finance executives everywhere are requesting the best methods to directly forecast cash, and in some cases, indirectly from historical datasets."

About INTRADAY Inc.

INTRADAY Inc was founded to develop software technology that addresses intraday liquidity management requirements for corporations and banks.

Its founders have been at the forefront of liquidity management for over two decades, and are well-known thought leaders on the topic.

To find out more about how INTRADAY can add intraday liquidity management, enabling Real-Time Treasury capabilities contact us at info@intradayinc.com

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