 

TREASURY & CASH MANAGEMENT

Understanding the Bank's Business Model

Banks operate through multiple **Lines of Business (LoB)**, each designed to serve a different type of customer. These include Retail Banking, Preferred Banking, Business Banking, Global Commercial Banking, Investment Banking, and Global Markets.

From an internal perspective, these lines can be grouped into broader categories such as:

- Consumer Banking (individuals and small businesses)
- Global Banking (corporates and institutions)
- Wealth & Investment Management
- Markets (trading and capital markets)

A customer may initially enter the bank through one specific LoB, but their relationship often expands over time. For example, a business client may first open a basic account under Business Banking, but later require treasury services, payments solutions, or lending products.

The **Relationship Manager (RM)** plays a critical role here. They not only sell products but also identify additional needs. Treasury services are often introduced either as a **natural extension of a product (like a loan)** or as a **cross-sell opportunity**.

Role of Treasury in Banking

Treasury services form the backbone of **transaction banking**. While lending provides funding, treasury ensures that **money actually moves efficiently within the system**.

Broadly, banks serve two fundamental business needs:

1. Funding

Banks lend money and earn a margin between:

- Interest charged to borrowers
- Interest paid to depositors

However, lending involves **credit risk**, as borrowers may default.

2. Transactions

Banks facilitate the movement of money through:

- Payments
- Collections
- Trade finance
- Custodian services

This is where **treasury services play a critical role**.

Even if a bank does not lend, it can still earn revenue through **transaction fees** by enabling payments and collections.

Importance of Payments Systems

Payments are one of the most critical services banks provide. Every business—whether manufacturing, retail, or digital—depends on the ability to:

- Pay suppliers
- Pay employees
- Receive customer payments

Non-bank entities like fintechs, brokers, or advisors may compete in many areas, but **they ultimately depend on banks for actual fund movement**.

Even smaller banks rely on larger banks for:

- Cross-border payments
- High-value transactions

This creates a strong opportunity for large banks to dominate **payment services globally**.

Understanding Customer Business Models

Banks must understand how their clients operate in order to design effective treasury solutions.

Every business has a model that includes:

- What it sells
- How it sells
- How it manages operations
- How it generates profit

The way a business is designed directly impacts how it manages money.

For example:

- A company with global operations needs cross-border payment capabilities
- A company with high retail sales needs strong collections systems

Thus, treasury solutions must align with the **client's business model**.

Case-Based Understanding of Client Needs

Exxon (Oil & Gas)

Exxon operates across exploration, refining, and retailing.

- Exploration sites require **large payments for licenses** and **small payments for staff**
- Some locations may have **no inflows**, only outflows

This creates a need for:

- Multi-location payment systems
- Efficient fund transfers

PayPal (Digital Payments)

PayPal operates as a digital wallet.

- Customers convert money into digital balances
- Payments happen online
- Merchants receive funds

Despite being a fintech platform, PayPal still needs banks for:

- Holding funds
- Paying merchants
- Currency conversion

Apple (Global Retail + Manufacturing)

Apple has:

- Global suppliers (e.g., Foxconn)
- Retail stores and online sales

This leads to:

- Large outbound payments to suppliers
- High-volume inbound collections

Thus, Apple requires:

- Global payment systems
- Efficient collections infrastructure

DuPont (Global Manufacturing)

DuPont operates across multiple geographies with:

- Distributed suppliers
- Global production units

This creates demand for:

- Multi-currency payments
- Cross-border treasury solutions

Working Capital and Treasury Link

Working capital represents the **day-to-day financial cycle of a business**.

It involves:

- Buying raw materials
- Producing goods
- Selling products
- Collecting payments

This cycle creates continuous movement of cash.

Whenever a client takes a **working capital loan**, treasury services become essential because:

- Payments must be made to suppliers
- Receivables must be collected
- Surplus funds must be managed

Treasurers aim to:

- **Reduce receivable time (faster collections)**
- **Optimize payable time (delay payments strategically)**

This improves liquidity and profitability.

Nature of Cash Management Relationship

Treasury services are often deeply integrated into a client relationship.

A client may:

- Start with a basic banking relationship
- Then adopt treasury solutions as needs grow

Treasury is rarely standalone—it is usually:

- Linked to lending
- Linked to payments
- Linked to business operations

Client Onboarding in Treasury

Client onboarding is handled by the **Line of Business that initiates the relationship**.

Core Objective:

Ensure that the bank:

- Knows who the client is
- Understands their business
- Accepts them as a customer

This process is called **Know Your Customer (KYC)**.

Key Elements of KYC

1. Customer Identification

Verifying identity using valid documents.

2. Due Diligence

Checking background to ensure the client is not involved in illegal activities.

3. Customer Acceptance Policy

Deciding whether the bank should onboard the client.

Senior management may be involved in high-risk cases.

Documentation Requirements

Account opening requires:

- Identity proof
- Address proof
- Entity-specific documents
- Business-related documents

Additionally:

- Each Line of Business may require **specific documentation**
- Treasury services require **additional agreements before transactions begin**

This ensures:

- Legal protection
- Clear responsibilities

Treasury Onboarding – Access Stage

The first stage is **"Getting Access."**

This involves:

- Verifying authorized users
- Setting up login methods
- Choosing environment (test vs live)

It establishes the **foundation for secure interaction** with bank systems.

Integration and Configuration

Clients must define how their systems connect with the bank.

Options:

- Direct integration (via APIs)
- Indirect integration (via vendors)

Security Measures:

- IP whitelisting
- Controlled access

This ensures:

- Only trusted systems can connect

Data Scope and Permissions

Clients must define:

- What data they can access
- What actions they can perform

Examples:

- View balances
- Initiate payments

This prevents **excess access and misuse**.

Credentials and Authentication

Banks provide:

- Client ID (username)
- Client Secret (password)
- App ID (application identifier)

Security is enhanced by:

- Sharing credentials via separate channels
- Using token-based authentication (OAuth)

Going Live

Before full usage:

- Systems must be verified
- Balances must match
- Access must be secured

Users may log in using:

- Biometrics
- QR authentication

CashPro – Customer Perspective

CashPro acts as a **central treasury platform**.

Key User Journey:

1. **Login** – Secure and fast access
2. **Dashboard** – Central view of accounts and tasks
3. **AI Assistant (Erica)** – Quick queries and support
4. **Escalation** – Seamless move to human support
5. **Search** – Locate transactions instantly
6. **Documentation** – Generate reports instantly

This significantly improves efficiency.

Payment Methods

Traditional Methods:

- Cash
- Checks

Electronic Methods:

- ACH (batch payments)
- Wire transfers (high-value)
- RTP (real-time payments)

Each has different:

- Speed
- Cost
- Use case

Lockbox and Check Conversion

Lockbox services allow banks to:

- Collect checks on behalf of clients
- Process them quickly

Benefits include:

- Faster collections
- Reduced fraud
- Lower operational effort

Real-Time Payments and Zelle

Modern systems enable:

- Instant transfers
- Immediate settlement

Zelle is an example of:

- Person-to-person payments
- Integrated banking experience

Operational Risk in Treasury

Risks include:

- Fraud
- Payment errors
- Delays
- System failures

Banks use a **Three Lines of Defence model**:

1. First Line – Operations

Manage risks directly

2. Second Line – Risk & Compliance

Monitor and guide

3. Third Line – Audit

Independent review

Treasury and cash management are critical to:

- Business operations
- Banking relationships
- Financial efficiency

Banks must:

- Understand client business models
- Offer tailored payment solutions
- Ensure strong risk controls
- Leverage technology for efficiency

Ultimately, treasury is not just about moving money—it is about **optimizing the entire financial lifecycle of a business**.