Cash Management and Cash Pooling

Cash Management a Cash Pooling

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Abstract

Bank financing is financing part of most companies and bring them many benefits. Most companies are in the planning process and prepare financial plans, which on the basis of corporate strategy set out the requirements for funding. These plans need to pinpoint specific needs in terms of type, size and maturity of the instruments required, depending on the expected cash flows.
Significant attention is paid to the Cash Pooling as the most important component Cash Management, which has a particular impact on the economy as banks and their clients. Attention, which is application Cash Management and Cash Pooling paid is reflected in the proposed model for assessing the suitability of clients for their application.

Key words

Basel; Bank; Cash Management; Cash Pooling; Financing; Risk.

JEL Classification: G390

1. Introduction

Banks are understandably cautious when lending and the clients always require a minimum of financial statements on which analyze the client's creditworthiness. Is examined in detail not only the client's creditworthiness, credit standing but also economic and other related groups. Is particularly interested in the history of the client and his business and therefore has an advantage when applying for a loan company, which is the current client bank. The Bank has a good overview of all transactions on his account and you can create a better idea of his capabilities and ability to meet obligations. Generally, however, the bank of the analysis process faster and less expensive than credit rating.

For a bank loan products are the most important asset and the main source of income. The largest part of these is particularly the commercial and business loans. For the purposes of cash management and the analysis need not be addressed by other products active bank balance sheets, which are not in Cash Management (for example, loans and loans to other banks, purchased securities transactions for own account of the bank, etc.).

Credit products are indeed risky and relatively illiquid; it is also reflected in their profitability, especially in the level of interest rates, which are influenced by credit ratings client with which the Bank carries out an analysis of financial statements and the outcome of the business[2]. Since this type of asset risk is regulated by the activities of banks by the CNB

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[2] POLOUČEK, S. a kol.: *Bankovnictví*, 1. Edition, Praha, C. H. Beck, 2006, 716 p., ISBN 80-7179-462-7, p. 367.

as well as European Union directives, in particular the rules of credit exposure and capital adequacy of banks.[3]

The basis for the development of Cash Management, the development end of the 20th century, which brought significant changes to global banking business. Until then, all transactions taking place rather in the form of cash, management in enterprises was decentralized, so businesses do not suffer a significant demand for banking products and their sophistication. With the opening of borders, however, came to the Czech Republic as well as new opportunities and trends. In order to achieve profit growth in the value of the company and increase market share was necessary to centralize management, standardize and automate. Enterprises have begun to require banking products that would support their efforts and streamline their efforts to saving procedure. Significant influence here was the onset of globalization, the impact on financial-economic development not only political, but subsequently the financial-economic is very strong. As a result, they are new conditions for effective separation of activities between countries easier and more effective communication between them. The result of mergers, acquisitions and expansion of multinational companies in national markets. Globalization stimulates this process of innovation in the financial and therefore by extension in the banking sector.[4]

Globalization can be considered as a unique historical and inevitable social phenomenon that accompanies the first signs of mankind society or civilization. Modern globalization only time unbelievable speeds thanks to modern technology.

Internationalization and globalization of the business sector is not possible without the existence of internationalized banking system - when entering foreign markets for their clients require banks not only the perfect basic banking operation (bookkeeping, finance, etc.) as well as counseling. The result of these requirements is the internationalization of banks in relation to the internationalization of their clients and the need to develop products at international level. The presence of banks in foreign markets through subsidiaries and affiliates is so essential. To strengthen its competitiveness in foreign markets, banks can also take advantage of strategic alliances and collaborate with their competitors.[5]

The globalization has a number of factors such as deregulation, the existence of liberalized financial markets with free convertibility of currencies[6], financial innovation and internationally-oriented institutional investors[7]. His naturally have a considerable influence ever-growing technological possibilities, the worldwide surplus and shortage of capital at the same time (mostly limited to domestic markets), the rapid growth of multinational corporations, which are referred directly to the carrier of globalization - the increasing capital intensity is a reflection. Banking markets cannot be precisely fully liberalized and applies them to deregulation, which means setting new supervisory rules and regulations that conform to current market conditions. In this framework, as removed restrictions preventing the entry

[3] Modified Decree No. 123/2007 Coll. On prudential rules for banks, credit unions and securities dealers, as amended by Decree No. 380/2010 Coll. and Act No. 21/1992 Coll. banks. [CNB [online]. 2003 Available at: http://www.cnb.cz/cs/dohled_financni_trh/legislativni_zakladna/banky_a_zalozny/pravni_predpisy.html [06. 03. 2011].

[4] POLOUČEK, S. a kol.: *Bankovnictví*, 1. Edition, Praha, C. H. Beck, 2006, 716 p., ISBN 80-7179-462-7, p. 22.

[5] SOKOLOVSKÝ, Z.: *Vitální banky*, 1. Edition, Praha, Bankovní institut 1999, 374 p., ISBN 80-7265-024-6, p. 26.

[6] It is a necessary condition for banks to follow their domestic clients abroad.

[7] As part of their investment behavior of these investors move heavily instruments of financial markets across economies, thereby connecting.

of foreign investors and banks on the national markets for their removal allows the interconnection of individual national economies[8].

Technological developments have created a society more informed, more informed, and as such, dictates the conditions and pressure on banks in the areas of creditors, payment terms, use of technology in banks, credit decisions, etc. There is a change in the ratio between work and free time in the company, which for banks resulting in profitable (and cost) opportunities. All expectations (clients) are reflected in their strategies the bank into the banking ethics[9].

Banks and financial institutions are forced to devote more time creating and developing new products and services. The client can better meet their needs - it can choose the product, a service that better meets their needs.

All this is of course not new, but is currently gaining more and more important in banking are "bank without clients - is losing sense of existence."

2. Cash management and Cash Pooling

A case in which the bank strives to meet its clients, the management and centralization of liquidity for businesses - Cash Management (with all its components, especially those that reflect the pressures of clients to reduce costs and better use of available funds - especially Cash Pooling) is a product of the second half 90th of the last century and were allowed:

- The rapid development of information technology. In particular, the possibility of quick and seamless connection allows banks to offer new products. There the banks to partial substitution of information flows through SWIFT, which is relatively expensive for banks. Fees for a single report range from EUR 1, and if necessary taking into account the number of transmitted information, it is not an insignificant cost item.
- Expansion of clearing interbank payments processing system, which is significantly cheaper and faster than the corresponding payments.
- Had a significant impact and European Commission initiative that abolished since 2004 in most EU Member States tax on cross-border payments of interest and thus more attractive to real cash pooling. At the same time decreased from January 2006 fees for cross-border transfers of up to EUR 50 000, which may not be higher than charges for domestic payments (in both cases are meant interbank transfers).

All this enabled the banks to expand the range of Cash Pooling for businesses. Of course true that these products are not intended for everyone, but the banks have is designed for clients:

- Who are actively interested in these products;
- As an offer for acquisition of clients, who are of interest and the need to retain significant clients, which are interested in other banks.

We can Cash Pooling divided according to various criteria:

- Cash Pooling mono-criterial (it is awarded only one product of the total range of possible cash pooling).
- Multi-criterial Cash Pooling (they are implemented mutual combination of options that offer cash pooling).

Other possible options are:

- Mono-currency Cash Pooling - encompassing all accounts in one currency of a particular business entity with the bank. This account is also including subordinate units.

[8] SOKOLOVSKÝ, Z.: *Vitální banky*, 1. Edition, Praha, Bankovní institut 1999, 374 p., ISBN 80-7265-024-6, p. 25-26.
[9] SOKOLOVSKÝ, Z.: *Vitální banky*, 1. Edition, Praha, Bankovní institut 1999, 374 p., ISBN 80-7265-024-6, p. 22-24.

- Multi-currency Cash Pooling - encompassing all accounts in all currencies of a particular business entity with the bank.
- Local Cash Pooling - which only applies to accounts in the territory of a Country.
- Multinational Pooling Cash - when it included in all accounts in the country, where the bank operates.
- Cash Pooling Credit - a credit directly reduces the load. Balances on debit and credit accounts and are offset, by the reduced credit lines and credit exposures and the associated lower interest on credit drawn.
- Risk reduction (Compensation Cash Pooling) - leads to the so-called reduced risk to the client. Balances on credit and debit accounts are not offset, but the credit balances are, used as collateral pumped debit. Hence, the risk to the client. Client is not pumped directly reduced credit and thus not less interest, but the compensation is provided to reduce credit risk, which in principle be replaced by a reduction of interest.
- Cash Pooling Credit-loss - offer cash pooling, which is focused only on the pooling of debit balances on accounts. Its aim is to collect all the funds in one account and then offer their clients a better interest rate. Practically it is a variant of real cash pooling, which is connected with Over Night Service.

The actual implementation of cash pooling can be done by two methods, which depend on the transfer of account balances in real terms or only notionally.

Real (target balancing) Cash Pooling

Its basic characteristic is the transfer of account balances, account for the main group to the end of the day. Positive balances are used to cover any deficits in other accounts within the group and thus leads to savings in external funding.

This means achieving zero is a regular target or other sub-accounts balance transfer surplus on behalf of the pool manager, collection account or overdraft coverage amounts to sub-accounts by crediting the account overdrawn amount the pool manager. Client group can automatically share cash and negotiate better financial terms than to spend a lot of time managing multiple accounts with low balances. Furthermore, the real (target balancing) Cash Pooling allows the credit to reduce the number of items and amounts due, which strengthens balance sheet structure and financial results.

Imaginary Cash Pooling

Unlike real cash pooling is a physical transfer of funds does not, but there is only a mathematical combination of balances on individual accounts so that account balances remain unaffected.

It therefore constitutes a virtual balance calculation by adding the balances of several accounts (with credit balances or overdrafts) to the bank in determining the credit or debit interest, considering only the net balance of the group. In this way the client gets back the interest margin, which reflects the difference between credit and debit balances on settlement rates. In financial terms, the result is similar to the result of a real pool, but there is no active management required on the client group.

3. Restrictions Cash management and Cash Pooling

Rules on taxes, regulation and accounting in each country are somewhat different and create problems in the application of multinational pooling cash in practice. There are more countries including the Czech Republic, in which there is a separate legal and tax rules and Cash Pooling is therefore necessary to consider its application to the applicable laws, regulations and ordinances. It is indisputable that in some cases, these rules discriminate against, respectively, limited to block the pooling creation of multinational Cash Pooling. These problems can be divided as follows.

a) Limitation of the central banks

Central banks always require banks to meet capital adequacy rules, and also comply with the solvency rules as required by Basel II, and will also require BASEL III. For banks is critical condition, which states that the risk-weighted loans included not only drawn, but also contractually promised, but not drawn of the agreed credit limits. The capital requirement for banks, for banks which means loss of profit, if possible, to be reflected either in the form of a "commitment fee", or as part of the fees for the Cash Pooling.

If the central bank does not allow for a imaginary Cash Pooling counting mutual debit and credit balances in margin calculations, the bank is forced to hold capital that it does not profit, but the client is fictitious profits from cash pooling. Even in this case the bank is forced to increase the course fees and the more costly the fictional Cash Pooling.

Central banks may require adjustments in accordance with local reporting requirements for cash transfers between resident and non-resident accounts. This course provides the administrative burden, but also favors the imaginary Cash Pooling.

For the Czech Republic, the exchange in accordance with the law, every company is obliged to report the involvement of CNB foreign companies to cash pooling within 15 - days. PMR CNB also set at 2% bear 14 - day repo rate of the CNB, which is from 29 6th 2012 in the amount of 0.50% (very low) and is projected to cost the bank in a imaginary Cash Pooling, where the bank has to block more than the equity in real cash pooling.

As a further limitation of cash pooling can ban certain types of cash pooling, however, that in the Czech Republic is not exercised.

b) Fiscal and tax laws and rules

It is based on the possibility of recognizing interest as an expense or revenue. This issue is dealt with in the Czech Republic Ministry of Finance - "To determine the tax treatment of" cash pooling "to distinguish between different types of product The borrower is also necessary to consider the tax deductibility of interest paid by the lender with regard to the provisions of § 25 paragraph 1 point. w)10, in cases where the provision of loans, respectively loans were taken in the line of "controlling" entity "controlled" entity. Under existing legislation, products cannot be distinguished according to the declared "main objective" operation, but should take into account whether the debtor disposed of the money lender or not. Ministry of Finance also added that if the creditor and the debtor personally, economically or otherwise related entities, should be used when determining the amount of interest based on the provisions of § 23 article 7[11].

c) Other rules

Cash pooling is not legally in the Czech Republic, as well as in the surrounding modified and everything associated with it are governed by generally binding legal norms, which are analyzed above.

In the case of real Cash Pooling is regarded as the reciprocal compensation account balances and the provision of loans and internal loans, which must, of course, individual entities exchange information on commitments and claims.

[10] Act No. 586/92 – Tax Act
[11] Opinion of the Ministry of Finance 789/13.03.0.2 – Problems of Cash Pooling Available at: : http://cds.mfcr.cz/cps/rde/xbcr/SID-3EA9846C-411B0791/cds/13032002.pdf p. 9 – 11 [15. 9. 2011

In the case of a imaginary Cash Pooling is not a physical movement of cash and is not therefore necessary to account for receivables and liabilities and are accounted for through the statement of account and revenue refunds.

All obligations, rights, and consequences arising out of Cash Pooling must be included in the contract documents. These are mainly the following contractual documents:

- Cash pooling agreement between the bank, the owner of the master account and the accounts involved in the cash pooling, including responsibility and liability for damages and credit risks.
- Agreement on intra-group loans and intro holding, where real Cash Pooling, with incorporated conditions of interest.
- A credit agreement between the bank and the owner of the master account and other owners of accounts on a Imaginary Cash Pooling.
- Cross-guarantee agreement, which governs relations guarantor in the event of a imaginary Cash Pooling.

Finally, it is necessary to take into account the laws and rules to prevent transfer of profitable assets in the financial tax havens. To defend against such tax evasion laws are applied that allow taxation of the profits derived there from, in the case that in a tax haven not developed any practical activity. These adjustments are particularly widespread in the U.S., UK and Japan, and naturally have an impact on the location of the center of cash pooling, then that should not be placed in a tax haven. At the same time, if they are used more tax havens, it is possible to take the risk to the suspicion of money laundering.

The main current trends can be practically described as follows:

- Multilevel Cash Pooling, which will involve a major cash pool account as a subaccount of another cash pool. This solution is suitable for example in a situation where the Cash Pooling established for more companies in the related group, and some of these companies need to engage Cash pooling a larger number of accounts. For the group of companies may be preferable for clarity to create a separate cash pool for each company and each company's main account, then sub-classified as superior to cash pooling.
- Sharing an overdraft account of the main frame and / or credit balances on accounts involved in the Cash Pooling is a premium service that allows you to fully use the resources on the accounts involved in the cash pooling. By means can be received during the day and the account used for outgoing payments from account B, the solution essentially pushes banks to the level of Cash Pooling in real time. At the individual account can define whether the account can use the master account overdraft facility and / or credit available balance of any account involved in the cash pooling. In both cases it is possible to restrict the use of funds in percentage, so for example an account and you can use 50% of the overdraft framework and 20% positive capital account available balance, 100% of the available positive account balance B, etc.
- Individual definition of identifiers, which will set at the account level, which transaction IDs are for transfers within the Cash Pooling appear in the account statement. Individually you can set a variable symbol, specific symbol and a text message to the recipient, which can facilitate the automatic processing in the client's accounting system.
- Replacing Cash Pooling in some cases and in some banks, for selected clients, setting other interest rates, which they will replace Cash Pooling. This is particularly the case when high credit balances exceed the debit balances or Cash Pooling applied if the client (economically interdependent group) does not receive credit for credit balances on their accounts. Examples are some organizations with high cash in various accounts that are waiting for suitable investment opportunities.

4. Conclusion

When using Cash Management and Cash pooling is necessary to pay attention to:

- Fiscal and tax laws and rules when their basis is the possibility of recognizing interest as an expense or revenue. This issue is dealt with in the Czech Republic Ministry of Finance - "To determine the tax treatment of cash pooling" to distinguish between different types of product (especially Cash Pooling real and Cash Pooling imaginaries).
- Restriction by central banks, central banks always require banks to meet capital adequacy rules, and also comply with the solvency rules as required by Basel II, and will also require BASEL III. For banks is critical condition, which states that the risk-weighted loans included not only drawn, but also contractually promised, but not drawn of the agreed credit limits. The capital requirement for banks, for banks which means loss of profit, if possible, to be reflected either in the form of a "commitment fee", or as part of the fees for the Cash Pooling.

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[3] Opinion of the Ministry of Finance 789/13.03.0.2 – Problems of Cash Pooling Available at: : http://cds.mfcr.cz/cps/rde/xbcr/SID-3EA9846C-411B0791/cds/13032002.pdf p. 9 – 11 [15. 9. 2011

[4] Modified Decree No. 123/2007 Coll. On prudential rules for banks, credit unions and securities dealers, as amended by Decree No. 380/2010 Coll. and Act No. 21/1992 Coll. banks.

Summary

Příspěvek je zaměřen na možnosti a podmínky, které jsou spojeny s aplikací Cash Managementu a Cash Poolingu, včetně jejich dopadu do řízení risika ve vztahu k aplikacím Basel. Současně poukazuje na problematiku spojenou s aplikací Cash Managementu a Cash Poolingu.