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CORPORATE BANK ACCOUNTS:
DO YOU HAVE CONTROL?

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Introduction

In this global era, organizations operating in non-domestic markets must set up regional bank accounts in order to manage their cash flows through those regions. Currently, when organizations assess these bank accounts the priority is identifying opportunities in terms of deficits, cash surpluses, or pooling and sweeping arrangements. That is, after all, traditional cash management and a significant part of most treasuries' policy and process. But what about the structural risk of these non-domestic and subsidiary bank accounts?

This article discusses whether corporate organizations have enough control over their non-domestic and subsidiary bank accounts and why managing the structural risk of these accounts is so important.

In many organizations, the decisions about bank account selection are taken at a business level. This allows the business unit to control costs and therefore decisions will be made based on economics. The assessment in choosing a cost-efficient banking service does not necessarily incorporate a process of measuring the risk associated with that banking service or those bank accounts - factors such as the geo-politics of the country where the account is located or the credit rating of the bank with which the account is made - these types of factors contribute to the structural risk of the bank account.

Significance

Understanding structural bank account risk is important because - like insurance policies that protect against risk in different business operations - it can help protect and manage cash flows in non-domestic and subsidiary bank accounts. Currently, corporate organizations do have simple mandates in place to manage these accounts but what is lacking is real knowledge and centralized control. This is control and knowledge not just over the balance and cash flow, but over who can open and close bank accounts, on what basis, or the choice of authorized signatories.

A centralized management mechanism for assessing structural account risk would allow corporate organizations to have a complete view of all bank accounts and therefore the opportunity to simplify over-complicated bank structures and improve management of liquidity risk by concentrating banking activity in areas or institutions where they are more secure. A centralized approach would also provide organizations with the platform to maintain top-level control over the signatories and authorizations of any bank account to avoid the risk of fraud.

Obviously, the amount of cash flowing through different bank accounts will determine the importance of such risk assessment. A corporate organization might have a bank account that is considered risky in terms of its location but if it has a relatively low cash flow moving through it this might not be a concern. For corporations with a substantial amount of cash flow moving through non-domestic and subsidiary bank accounts, structural risk of bank accounts is a critical area. In fact, assessment of the bank account structure is an exercise that would be beneficial to every corporate organization that deals internationally - regardless of its size or how many countries it operates in.

Take Action

It is important to note that the existence of high-risk bank accounts is not the issue. In a corporate environment, it is inevitable that various transactions and business areas, and therefore the bank accounts attached to them, will have some intrinsic risk associated with them - this is where the profit margin is often created. What is vital is that corporate organizations manage and understand structural bank account risk properly - they should be able to show that they have a due diligence process in place and that they can act on it, such as moving funds from a high-risk environment to a more appropriate environment where necessary. In order to do so, they will inevitably have to review their non-domestic and subsidiary bank accounts to classify each one's structural bank account risk. This is clearly not an overnight 'quick-fix' but the benefits of bank account risk assessment will outweigh any time or effort in setting up and implementing a centralized management mechanism.

The major regional banking players will also be able to use their banking expertise to help corporations reduce their risk exposure from bank accounts. Corporate organizations will demand a balance between control over their bank account risk and maintaining a low-cost service provider. If banks can provide the right service, they stand to benefit from corporate organizations' attention to structural bank account risk.

In a climate of increased corporate compliance, directors and senior business managers face the obligation of more effectively and transparently managing their accounts and financial reporting tasks. Compliance is pushing corporations to simplify processes and centralize visibility of accounts and financial information wherever possible. Risk assessment of bank account structure is one area that will inevitably move into the spotlight so corporate organizations should start asking themselves now if they really do have control and knowledge of their non-domestic and subsidiary bank accounts.

About AvantGard

SunGard AvantGard is a financial management software solution suite that allows corporations and financial institutions to manage cash coming in and out of the enterprise at every point along the financial supply chain.

AvantGard solutions give CFOs, treasurers, cash managers and credit and collections managers the tools to derive maximum value from working capital while also providing the capability to reduce risk. The suite helps automate and optimize the end-to-end financial supply chain by incorporating Treasury, accounts receivable and account payable for accelerated cash collection, improved payment cycle time and cash optimization on a global basis.

AvantGard's scalable, customizable solutions connect directly to corporations, banks, customers, partners and suppliers via a secure data connection and present aggregated financial data via an executive dashboard for maximum cash visibility and control.

For more information, visit www.sungard.com/avantgard

About SunGard

With annual revenue of \$4 billion, SunGard is a global leader in software and processing solutions for financial services, higher education and the public sector. SunGard also helps information-dependent enterprises of all types to ensure the continuity of their business. SunGard serves more than 25,000 customers in more than 50 countries, including the world's 50 largest financial services companies.

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