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▶▶▶ **Building a Solid Foundation for Cash Flow Forecasting**

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▶▶▶ **Checks Still Popular in Digital Age, But It's Wise to Explore E-Payments**

After years of effort and multiple initiatives, widespread adoption of electronic business-to-business (B2B) payments has yet to materialize. In fact, overall use of electronic payments grew only 9.3% per year from 2006 to 2009, according to the 2010 Federal Reserve Payments Study.

▶▶▶ **How Will the Repeal of Regulation Q Affect Your Liquidity Strategy?**

Financial institutions will soon be able to pay interest on corporate demand deposit accounts as a result of the repeal of Regulation Q, but current low interest rates mean that treasury managers are likely already using the optimal checking account option. Most will see little change immediately following the regulation's repeal, which is part of the Dodd-Frank financial reform law.



Building a Solid Foundation for Cash Flow Forecasting

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A successful approach to cash flow forecasting starts with communicating its value to constituents and lining up reliable data sources.

“Building this foundation takes time but yields an accurate forecast that can be relied upon for financial decisioning when properly maintained,” says Ken Parkinson, Managing Director for consulting firm Treasury Information Services.

The value of effective forecasting

Ineffective cash forecasting results in lost opportunities. For example, businesses that rely on short-term investments because forecasts inaccurately indicate a pending need for cash miss interest opportunities on longer-term alternatives. Similarly, businesses may pay higher interest rates when they need quick cash if forecasts don't predict their borrowing needs correctly.

To ensure greater cash forecasting effectiveness, Parkinson suggests the following steps:

- **Define the forecast's point of view.** Determine whether to organize cash flows by organizational entities or functions. Also, forecast in treasury terms (collections and disbursements) rather than accounting terms (receivables and payables) to focus on cash flows rather than just cash.
- **Line up sources.** If sources are reliable, use fewer of them. If they're not, solicit multiple sources to provide a gross estimate-based forecast. Also, skip sources with “accounting” or “budgeting” in their titles. “A budget may be a forecast once a year, but the real purpose of budgeting is control rather than forecasting,” Parkinson explains.



- **Address major, recurring variances.** The reason for recurring variances may be that current sources are operating above the level of detail that you need. Pressure those providing data to be more precise, or solicit data from those more closely connected to the data.
- **Assess usability.** If the forecast isn't relevant or used to make financial decisions, something is amiss. Also, communicate to upper management that this is a forecast, not a certainty. “If it was, we'd call it cash flow certainty,” Parkinson quips.
- **Review the process.** If the forecasting process is unclear or difficult, employees won't help you. Ensure communication flows among all sources so they remain willing participants.

A new cash forecasting service

To help businesses improve their performance in this



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area, U.S. Bank is launching U.S. Bank SinglePoint® Cash Forecasting in fourth quarter 2011. Accessible through U.S. Bank's SinglePoint online banking suite of treasury management services, this service will enable customers to:

- **View current cash positions.** Users will be able to determine their daily cash position in real-time and customize which data they see at what point in time (e.g., daily in the morning and quarterly in the afternoon). Users will also be able to forecast 18 months into the future.
- **View daily variances.** The cash forecasting service will enable users to compare projected forecasts against what the bank actually processes to identify variances (e.g., expected invoices that weren't paid or wires that weren't received). If variances rise above or fall below certain levels, users receive alerts via email, text message or when logging in to SinglePoint.
- **View historical trends.** Users can click amounts displayed in SinglePoint to view individual transactions for analysis or further categorization. Then, they can select various forecasted data to identify and graph trends (e.g., cash inflows or outflows).
- **Use multiple data inputs.** Customers can also adjust forecasts using historical, imported or manually added data. For example, customers can automatically update a forecast using data associated with an Automated Clearing House (ACH) batch transaction initiated through SinglePoint.

"SinglePoint Cash Forecasting provides a snapshot of today's current cash position, the previous-day variance calculation and the upcoming cash forecast," explains Kelly Hyde, SinglePoint Product Manager, U.S. Bank Global Treasury Management Group. "The service's scalability eases the workload associated with forecasting and provides generous flexibility to meet your expanding needs."

Contact your Treasury Management Consultant to learn more.

Checks Still Popular in Digital Age, But It's Wise to Explore E-Payments

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After years of effort and multiple initiatives, widespread adoption of electronic business-to-business (B2B) payments has yet to materialize. In fact, overall use of electronic payments grew only 9.3% per year from 2006 to 2009, according to the 2010 Federal Reserve Payments Study. Furthermore, because B2B transactions typically lag consumer transactions in electronic adoption, the actual B2B migration rate is likely smaller.

"Checks are popular because they work well and are often engrained in companies' policies, procedures and legacy systems," notes Greg Rettinger, Assistant Vice President in Global Treasury Management for U.S. Bank. "Furthermore, efficiency gains in processing and solutions like lockbox and remote deposit capture have reduced some of the pain associated with checks."

Perhaps the biggest reason why more businesses haven't given up paper is that most of them cannot mandate their trading partners to switch to electronic payments, according to a PayStream Advisors 2010 report, "Electronic Payments: Streamline P2P, Reduce Costs." Other reasons cited in the report include a lack of internal information technology (IT) resources to enable a transition, and concerns about integration with legacy systems and addenda information.

Beyond these barriers, today's electronic payment instruments also aren't perfect, Rettinger adds.

For example:

- **Card-based alternatives** are widely accepted and reduce processing costs, but misuse is a prevalent fear and new legislation could increase interchange fees.
- **Cardless options** like ghost and single-use accounts enhance security and add spending controls, but supplier engagement is limited.



- **Electronic Invoice Presentment and Payment (EIPP)** easily converts paper invoices into electronic form and promotes supplier/buyer collaboration, but a lack of network and file uniformity can make it difficult to implement.
- **The Automated Clearing House (ACH) network** offers the lowest cost per payment through batch processing, but communication challenges exist among trading partners and rules are complicated to follow.
- **Wire transfers** provide immediate funds availability but are costly for initiators.

A pending swell in e-payments?

Despite the challenges, companies shouldn't discount electronic payment methods. Rettinger points to a recent U.S. Bank Corporate Payment Systems study that indicates we might be on the cusp of a larger movement toward electronic B2B payments.

"A growing number of companies are ready to wage war against checks' high fraud rates and higher cost per payment, and many others continue to

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contemplate the environmental impact of making paper payments," Rettinger says.

To enable greater electronic payment adoption, however, more innovation is necessary. Rettinger suggests that same-day ACH and its cohesive addenda and remittance capabilities could lead the way. Other adoption boosters could include improved data security standards, widespread acceptance of standards by payment networks, and more turnkey solutions that minimize IT expenses.

"Looking ahead, checks will continue to be part of the mix of business payments for all customers — albeit it a smaller one," Rettinger predicts. "Therefore, businesses should start exploring today's electronic payment options to determine how they can garner some of the benefits of automation, straight-through processing and integrated reporting, while following a path that makes sense for them in terms of cost, efficiency and ease of use."

Here are some ways to get started:

- **Examine your current payment mix and calculate the total cost per payment**, including fraud, and the costs associated with processing, mail and full-time employees.
- **Identify payment alternatives** that suit your business type and industry. Also, ask your trading partners whether they accept electronic payments.
- **Calculate the costs to switch to electronic payments** using spreadsheets and calculators found on NACHA's electronicpayments.org Web site.
- **Estimate the "green" benefits** and environmental impact of moving to electronic payments at NACHA's PayItGreen Web site.

- **Seek CEO or CFO support** once you are armed with a valid case for moving to electronic payments. "Payments will move to electronic only when there is a clear value proposition," Rettinger says.

U.S. Bank continues to invest in new technologies to improve B2B payment options. Contact your Treasury Management Consultant to learn more.



How Will the Repeal of Regulation Q Affect Your Liquidity Strategy?

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Financial institutions are now able to pay interest on corporate demand deposit accounts as a result of the repeal of Regulation Q, but current low interest rates mean that treasury managers are likely already using the optimal checking account option. Most will see little change immediately following the regulation's repeal, which is part of the Dodd-Frank financial reform law.

Though the immediate impact is expected to be minimal, when interest rates increase, treasury managers will have more choices about how to handle their excess cash.

Law changed this summer

Regulation Q was enacted in the 1930s to help prevent banks from attracting deposits by offering high interest rates, which regulators at the time felt was one of many issues that contributed to the Great Depression. The regulation eliminated interest payments for checking accounts, though the development of NOW accounts in the 1970s permitted payment of interest on checking accounts used by consumers, sole proprietors, non-profits and government entities.

Beginning July 21, 2011, a year after the Dodd-Frank Act was signed, banks once again are able to pay interest on corporate checking accounts.

New options to consider

"Though the repeal of Regulation Q enables banks to pay interest on checking accounts used by for-profit businesses, it does not require that interest be paid on such accounts," explains Tiffany Muscala, Assistant Vice President, Global Treasury Management, U.S. Bank. "Even though it is not required, U.S. Bank along with many other banks will offer new interest-bearing checking options.



This will mean that treasury managers will have more options to consider when choosing their liquidity strategy."

New interest-bearing checking account options may be in the form of interest-only checking accounts that do not offset fees, or "hybrid" checking accounts that both offset fees and pay interest on excess cash held in the account. The new products will likely offer lower rates than earnings credit checking accounts and other investment options, and some banks may charge an additional fee for the added convenience the accounts offer. Most banks will likely offer these products in addition to the many deposit and liquidity options already available today.

The low rate environment will mean that most businesses will continue to prefer the earnings credit checking account they are using today to offset bank fees. Earnings credit-only checking accounts will have the added benefit of unlimited FDIC insurance through 2012. Interest-bearing accounts will receive coverage up to \$250,000 per account holder.



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“It might seem enticing at first glance to be able to earn interest on this excess cash,” says Matt Smith, Vice President, Global Treasury Management, U.S. Bank. “But with prevailing interest rates so low, it’s likely to be best for treasury managers to use alternatives other than interest-bearing accounts to invest excess cash. Such options are likely to provide better financial returns.”

Companies with accounts at U.S. Bank can continue to sweep excess cash into a wide variety of earnings instruments, including money market funds, repurchase agreements and commercial paper. Cash not needed for a longer period of time can be invested in other U.S. Bank products, including jumbo certificates of deposit; U.S. Treasury bills, notes and bonds; government agency securities and mutual funds.

How should treasury managers react to the repeal? Most companies are already in the optimal deposit account if they are using an earnings credit checking account due to today’s low rate environment. For most treasury managers, no action is needed.

As your trusted partner, U.S. Bank is committed to providing you with a wide variety of product solutions to meet your needs. A U.S. Bank advisor can work with you to help determine the best option for your company’s unique financial needs.

