The Scenarios e-Book: Unlock True Power of Virtual Accounts
A short discussion entailing the current dynamics in corporate treasury operations, the key challenges in the wake of the pandemic, the treasurers’ top priorities, and the systemic impediments they face – the chapter sets the prologue for the rest of the discussion.

This chapter discusses the role of virtual accounts in digital cash management and highlights the value proposition it offers for both banks and their enterprise clients.

Enhanced visibility into cashflows, better controls over them, efficient payables, receivables management, and more – the cash management priorities converge across industry segments and the business context – this chapter demonstrates the utility of virtual accounts solution for varied requirements.

The digital cash management revolution is on, and leading banks worldwide are innovating with Finacle Virtual Accounts Management solution. Learn more about the platform and its key promises.
The corporate cash management chronicle

Cash management in the pandemic times – the story so far

In the wake of the pandemic, the cataclysmic events across the business world are glaringly evident; global supply chains saw unprecedented disruptions, manufacturing output took a hit, and the costs of products rose. To add to the chaos, suppliers demanded upfront payments, and many customers sought payment deferrals. The cash flow disruptions became a reality, and the forecasting models would no longer hold good. In general, the business continuity itself came under severe pressure for many firms – and it continues to be so, even as recovery looms.

The complexities in treasury management were already prevalent

Most businesses, especially the ones with global operations, have already faced a host of challenges. Invariably they have been dealing with many structural complexities, such as -

- Different lines of business requiring unique working capital arrangements
- The need to operate under varying macroeconomic conditions, even as geo footprints expand
- Operating across multiple time zones requiring round-the-clock treasury management
- Multiple currency transactions necessitating strategic forex and risk management
- Complying with regulations, global and local, at minimal costs and penalties
The expectations are only increasing by the day

The pandemic forced the corporates and their treasury managers to drive resilience in their treasury operations. But beyond that, increasingly, company leaders are now looking at their corporate treasury function to play an important role in managing and delivering financial prudence, while maximizing business outcomes. With the expanding role, the corporate treasurers are expected to take a strategic view of their function. The enhanced focus on streamlining the working capital, strengthening the balance sheet, improving the financial stability, and maximizing profitability, will be like never before.

Treasurers are prioritizing the following to deliver what is expected of them.

- **Streamlining payments and improving cash concentration**
  Optimizing receivables and payables management, to allow the treasury function to assume a more central role and establish greater financial controls.

- **Segregating cash flows based on business requirements**
  Mapping business needs and segregating both inward and outbound cash flows to gain visibility and improve forecasting capabilities.

- **Performing a strategic role**
  Reimagining the fundamentals of treasury operations to deliver strategic value.

Many systemic impediments to deal with

A key problem is that corporate treasurers’ options have not grown in tandem with emergent expectations. The choices narrow down to setting up in-house banks and treasury management systems within the enterprise, and outside the enterprise, using multiple physical accounts in different banks and regions, for managing liquidity and working capital requirements.

These options come at a high cost. Internal setups need capital upfront and are also expensive to run. On the other hand, maintaining a large number of bank accounts entails substantial accounting and transaction fees. Corporates also suffer from limited flexibility and complex liquidity structures, which are mostly not in sync with their business dynamics. They also need to deal with several operational challenges such as complex onboarding processes, KYC clearances, account signature mandates.
The new strides with virtual accounts

Virtual Accounts for the new frontiers in digital cash management

As corporates seek efficiencies in their treasury operations, smarter cash management has become a top priority. The need for treasury centralization, which significantly enhances visibility and provides better controls over financials, is like never before. Besides, there is a growing conviction among treasurers across all regions to rationalize physical accounts, save costs on traditional liquidity products such as sweeps, pooling, improve risk management with streamlined cash flows & continuous real-time concentration, automate receivables management, and redo in-house banking with the likes of on-behalf liquidity techniques.

Here, a virtual accounts product, which comprises one (or very few) physical, ledger-based real accounts per currency, that can be virtualized into infinitely many virtual accounts, offers unique propositions:

- Increased treasury agility by setting up virtual account hierarchy based on emergent business needs and liquidity structures that truly reflect complex organizational requirements
- Augmented working capital initiatives that are strategic in nature, offering better financial controls
- Lean treasury management delivering more outcomes with fewer resources

Virtual accounts offer the best of both worlds – corporates can now experience the much-needed duality – CENTRALIZATION with fewer physical accounts and DECENTRALIZATION, with as many virtual accounts

For corporate banks, virtual accounts represent a fundamental transformation in the service model to support corporate cash management operations. It enables them to scale new frontiers in digital cash management by providing corporate clients access to innovative global cash and liquidity management solutions, along with much-needed flexibility and self-serve capabilities.
Virtual accounts – A strategic enabler for corporates

Centralize treasury operations
Virtual accounts help to consolidate complex cash operations across banks and regions, and thereby improve both cash flow visibility and forecasting capabilities.

Improve efficiencies; reduce costs
Companies can save the cost of using traditional liquidity products such as sweeps and pooling, drive efficiencies and also reduce the various costs associated with account transactions, payments, overdrafts.

Enhance automation and STP
Reconciliation at the virtual account level enables automation and significantly improves straight-through processing outcomes.

Improve MIS capabilities
Virtual accounts significantly improve management information reporting capabilities with streamlined account structures. Other advantages include better tracking of inter/intra company loans, alert systems through critical reporting, and customized reports.

Rationalize operating accounts landscape
Corporates can rationalize their operating accounts landscape by reducing the number of physical accounts and overdrafts, and optimizing cash flows.

Manage virtual accounts digitally
Bringing automation and self-service, virtual accounts empower corporates to perform bank-like actions and manage their treasury effectively.

Improve risk management and liquidity positions
Streamlined cash flows, continuous real-time concentration, and centralized funding and investment decisions vastly improve liquidity management and risk mitigation.

Reimagine in-house banking
Virtual accounts help to reimagine the traditional in-house banking model with an “on-behalf” approach for payables and receivables.

There are many advantages for banks too

Enhance customer propositions
By transforming cash management experiences digitally, banks can enhance customer centricity, attract new clients and improve customer stickiness.

Reduce opex
With digital self-serve capabilities in place, virtual accounts help banks reduce operating costs, such as the administrative overhead of maintaining a huge number of physical accounts and associated efforts.

Improve profitability
Banks can also improve profitability parameters by lowering provisioning for risk-weighted assets.

Respond to regulatory drivers
Virtual accounts improve compliance to emerging regulations such as BASEL III, IFRS, BEPS.
Virtual accounts – A compelling proposition for many business scenarios

For banks to retain their existing customer base, secure new business, and be seen as an innovative leader in the corporate banking space, it is increasingly imperative to offer digital cash management products that truly enhance customer propositions. And in current times, customers of all stripes and size value digital products that enable the following:

- Augment data-driven decision-making capabilities in cash and liquidity management
- Drive down both fixed and operational treasury costs
- Enhance operational efficiencies in treasury and cash management

Virtual accounts offer multiple benefits, for both business and institutional clients. The rest of this chapter demonstrates the utility of virtual accounts based solution in varied industry contexts.
Helping universities and large academic institutions to manage finances efficiently
The Context

Universities and large academic institutions manage multiple programs for a range of courses of varying duration.

When the pandemic hit, academic institutions modified existing programs and introduced digital modes to enable the transition to remote education. They also had to take a fresh look at the management of their financial assets amid fee deferments, expanded installment schemes, financial aid revisions, and adjustments to student sponsorship/student credit programs, all of which were changing the cash flow dynamics. The situation also called for changes to be made to staff payables and the management of other expenses.

The Ask

As the education industry continues to make these changes, it is turning to banks and financial institutions for sophisticated digital cash management solutions. With enhanced visibility into cash flows, educational institutions will be able to track credits and debits at a granular level, for example, by student, staff or other expense head and have greater control over their cash and other financial assets.

The Benefits

- Streamline cash flows
- Manage student relationships; improve retention
- Enhance on-time staff benefits
- Manage expenses with efficiency
- Optimize dependency on collection agencies
Enabling asset management firms to improve investment fund pool management
The Context
Managers of investment fund pools must handle cash flows prudently; this is critical for flexible investment and cash deployment, cost control, managing a variety of risks, and meeting IRR targets. Today, managing treasury positions with flexible fund structures has become even more important, with the pandemic underlining the need for dynamic management of pooled funds.

The Ask
Facing unprecedented volatility and competition, fund managers are seeking digital cash management solutions from their banks and financial institutions to gain visibility, control, and enhanced flexibility over cash flows. Their demands include streamlined account structures, improved reporting capabilities, and significant reduction in the cost associated with account transactions and payments. Fund managers also want complete automation, along with self-service capabilities to pool funds, drive investment strategies and redistribute returns to their investor clients, in a controlled and timely manner.

The Benefits
• Maintain adequate cash positions
• Manage stakeholder confidence with respect to their funds
• Comply with all regulatory requirements; manage tax, legal, and foreign exchange requirements
• Mitigate risks; avoid penalties and defaults
Marketplace escrows for enabling e-commerce business platforms
The Context

Global trends indicate that the buoyant e-commerce business only grew stronger during the pandemic. A host of new ventures are launching digital platforms to promote marketplace opportunities, enabling differentiated propositions for business houses and SMEs. However, running an e-commerce marketplace is quite challenging; just enabling and managing financial transactions can be quite complex thanks to the various requirements of accounting, taxation, forex management and payment-related compliance.

Marketplace participants (buyers and sellers) have their own inhibitions and expectations, such as credible trading partners, terms and conditions of payment, access to conditional credits, and others. At times, the expectations of one party can pose problems for the other. For example, a transaction involving advance payment is risky for a buyer, but one that does not, is risky for the seller. Securing a transaction through traditional means comes with its own challenges and costs both time and money.

The Ask

To overcome such problems, marketplace companies want their banks and financial institutions to set up comprehensive escrow solutions that streamline payment processes, manage trust between trading parties, eliminate process inefficiencies and enable seamless cash flows.

The Benefits

- Improve stability of business operations and build trust for all marketplace participants with a flexible escrow arrangement for managing funds
- Define the payment lifecycle for a business transaction upfront to align with a specific requirement or fulfill an outcome criterion, bring in agility with predefined milestones
- Offer innovative buyer financing options such as expense now pay later in partnership with banks, other lending institutions
Enabling legal firms to manage client monies efficiently
The Context

Legal firms not only have the onerous task of managing client relationships and their legal recourse requirements, but are also expected to manage client monies with complete diligence.

Managing client monies, however, is fraught with operational complexity in the form of on-behalf investments, unexplained drawdowns, incomplete documentation, unauthorized write-offs, and other such practices.

While mutual trust forms the bedrock of a legal firm’s relationship with its clientele, it has to comply with an increasing number of rules governing the management of client monies relating to diligent ledger management, current status records, and audit enablers.

The Ask

Professional law firms are demanding holistic solutions from banks and financial institutions to scale client monies management with innovative digital cash solutions. They are particularly interested in solutions that offer strong propositions such as distinct segregation of client monies, the ability to manage and automate receivables and payables on behalf of each client account or relationship, and better control over information reporting and compliance statements.

The Benefits

- Gain complete visibility into funds and underlying transactions for each client account
- Improve control over clients’ receivables, payables with on-behalf techniques
- Comply easily with emergent regulatory expectations
- Enhance transparency and trust with client-facing statements and reports
Helping real estate companies to automate receivables management
The Context

Real estate companies in the business of leasing out their properties face the cumbersome task of managing receivables efficiently. This is particularly complex for firms with many properties located in different regions that may be dealing with several short-term leases. These firms have an array of transactions with their tenants, such as taking and refunding caution deposits, and collecting base rentals, utility usage charges, and various other fees for pets, parking, late payments, damages, other recoveries, and adjustments.

The Ask

The companies are digitizing their internal processes, as well as setting up digital agreements with tenants. With digital payments rising rapidly, real estate firms are also looking to automate and digitize collections for which they need next-generation digital cash management propositions that enable them to manage cash flows with certainty, gain visibility into each property’s cash position, and also draw deeper insights with a 360-degree view of the relationship with each tenant.

The Benefits

- Manage cash flows effectively, in line with digital agreements
- Drive new efficiencies in managing tenant move-ins and move-outs
- Scale MIS reporting, and track late fees, delinquencies, and damage-related costs effectively
- Forecast cash flows and projections across properties for a specific period (fortnightly/monthly/quarterly basis)
- Enable key legal processes related to recoveries with transparency
Enabling telecom companies to scale efficiencies in receivables and collections management
The Context

Managing receivables has always been challenging for telecom companies who serve a massive base of retail and corporate customers with a range of offerings such as broadband, mobile and DTH services. Most of them have also set up platform-based businesses, offering entertainment zones in a subscription mode.

The companies need to manage receivables month on month for individual accounts and the invoice(s) under each. Covid-19 has brought the focus back on managing receivables with the highest efficiency. However, many operators still rely on their existing legacy CRM systems – on which they have built additional capabilities – and some have completely outsourced the process to third party agencies. Changing economic circumstances, highly competitive landscapes, and deep regulatory regimes are putting significant pressure on telecom companies as they try to manage a huge customer base as well as receivables efficiently.

The Ask

Telecom companies are now looking to their banking partners for help with managing their account receivables (AR). They want their AR processes to offer visibility into cash flows, enable them to forecast cash projections accurately, and create custom information reports that provide deeper insights, and manage delinquencies effectively.

The Benefits

- Manage receivables with certainty; augment forecasting capabilities
- Create new propositions such as payment holidays, discount plans to bolster retention post pandemic
- Draw insights on stressed accounts/relationships and create differential treatment plans
- Enhance customer experience
Streamlining receivables and payables management for platform-based aggregator businesses
The Context

Aggregation-based platform business models are making their mark across industries. Buoyed by new consumption behavior in the on-demand economy, marketplace creators are bringing together consumers and providers of various goods and services.

Powered by digital platforms and app-first offerings, these companies continuously create markets for both buyers and sellers, in real-time, 24/7. A key aspect of this model is the way platform businesses manage receivables and payables – a wide variety of them, such as registration fees, subscription fees, service usage commissions, leasing/financing transactions, and others – mostly, on behalf of their constituent parties.

The Ask

While these companies have immense digital prowess in areas such as AI and automation, they need support from their banking partners in the form of a sound digital cash management proposition. In particular, they want enhanced visibility into cash flows, true mobility to drive real-time cash movements, and also intelligent cash management enablers that will aid business operations.

The Benefits

- Enable real-time, on-demand cash flow propositions for all the constituent parties on the platform
- Automate AR/AP processes significantly and create seamless digital cash propositions
- Derive insights on key customer segments/profiles and sharpen business strategies
Transforming digital cash management with Finacle Virtual Accounts Management

Finacle Virtual Accounts Management is an industry-leading solution designed to digitally transform cash management services of corporate banks worldwide. Leveraging the solution, banks can empower corporates to transform their treasury operations, streamline payments and receivables, and reimagine in-house banking dynamics, while lowering costs. With a broad range of account virtualization capabilities and a digital self-serve model, the solution enables corporates to manage their global, multi-bank, multi-currency cash and liquidity positions with enhanced levels of visibility and controls.

- This highly configurable module brings a product-based approach, as well as entails a rule-based transaction restriction and replication capabilities to enable banks offer tailor-made services, and take new products to market with speed.
- Being core banking-agnostic, it comes with extensive capabilities to integrate with wide variety of core systems, including mainframes.
- The solution integrates easily with other enterprise systems, such as payments and liquidity management solutions, to give banks the flexibility to design and offer innovative services such as on-behalf payments and collections, virtual sweeps, virtual pooling, inter-company lending and more.
- This is a truly digital, multi-channel enabled solution with a suite of open APIs for easy integration, and a seamless digital experience on every channel.
Join the Finacle Digital Banking Community

Are you ready to start your journey?

The digital cash management revolution is on. Overcoming the disruption and keeping pace with corporates' demands requires banks to become truly digital and to anticipate what tomorrow's digital landscape may hold. Join the global community of corporate banking leaders who are innovating and transforming with Finacle.

Start your journey, today.

Contact us:
www.finacle.com
finacle@edgeverve.com