bobsguide.
Connecting buyers and sellers of financial technology

# Banks under pressure to monitor and report on cash in real-time

**Covid-19 pandemic, regulatory scrutiny and now quantitative tightening adds to banks' liquidity management challenges leading to increased interest in effective solutions and services.**

by Liz Salecka | May 24, 2022 | SmartStream Technologies

While growing regulatory pressures are placing a greater onus on banks to effectively monitor their cash positions in real-time, recent events have also strengthened the case for intra-day liquidity management.

The outbreak of Covid-19 focused many banks' attention on having the best systems in place to fully understand their cash positions in real-time across accounts for payments and receivables on an ongoing basis.

Nadeem Shamim, global head of cash and liquidity management at SmartStream, points out that the recent turmoil played a major role in enhancing banks' need for proactive intraday liquidity management.

"When the pandemic happened, central banks pumped a lot of liquidity into banks. Many clearing banks found that they had a lot of cash parked in their accounts," he says. "It is not just about shortage of liquidity but banks need to manage excessive liquidity as well."

Shamim went on to note many banks realised they needed better "control over their liquidity", which meant obtaining a clearer understanding of where the cash they held came from.

"Banks had to deal with the credit risk of their corporate customers and their customers' constrained availability in terms of supply chain finance and receivables financing. This is set to have a big impact on banks' overall liquidity as credit risk increased as quantitative tightening takes effect," he says.

To date, corporates with large supply chains have been at the forefront of moves to effectively monitor cash positions in real-time; the transaction banks, which offer them treasury services, are increasingly enabling them to do this with intra-day liquidity reporting services.

But, as Shamim notes, the rapidly changing environment and increased scrutiny led many banks' own treasury departments to realise that they too needed to "square up their own liquidity positions in real-time."

He explains that banks faced a situation where regulators were asking them to monitor their liquidity throughout the day and be able to report on their positions at anytime of the day. "Some banks failed here as they did not have a real-time picture of their liquidity," he says.

Another issue which emerged related to how banks could effectively manage and report on their liquidity within new hybrid working environments.

"A significant amount of liquidity reporting is still being done manually and the bank personnel who do this suddenly found themselves working from home, with reduced support of colleagues and support to resolve issues," says Shamim.

"The new working model exposed many inefficiencies in this process, and this led to increased operational risks that banks faced. Many banks found that they were having to make major funding decisions on an incomplete picture of their overall liquidity."

**The need for real-time**

The need for real-time liquidity monitoring has only grown in the palls of the pandemic.

The recent tightening of quantitative easing and rising interest rate costs will have an impact on bank liquidity as these will be reflected in banks' own balance sheets," says Shamim.  Furthermore, corporate credit spreads are increasing which may lead to a challenge in servicing debt.

Faster payments are being implemented in many markets. The settlement time has been reduced to a matter of minutes for cross-payments. "Banks are now expected to offer faster payments which they pre-fund at the clearing venues. As such there is a real need to know how much liquidity they have,".

Financial regulators have been on the offensive in recent years, with regards to reporting. The Basel Committee on Banking Supervision (BCBS), whose Basel III regulations alongside BCBS 144 and BCBS 248 standards, requires banks to be able to measure and manage their liquidity across intraday, 30-day periods and over a one-year horizon.

The framework also mandates the completion of stress tests to assess the impact potential unexpected 'shock events' may have on those balances. Specifically for intraday liquidity four scenarios are defined: Own financial stress, counterparty stress, customer bank's stress and market-wide credit or liquidity stress.

"Many countries have now implemented this, although some countries have not enforced it to the same extent as others," he says, noting the extent to which banks are impacted largely depends on their systemic importance.

The growing reporting requirements have placed added pressures on banks' own risk managers who need to conduct regular stress tests, and 'what if' scenarios to understand the potential impact of unexpected events on the organisation and its liquidity.

"There are examples, due to manual processes, where a bank wants to change elements of the stress tests it conducts, the process can take six to seven weeks," says Shamim. "Much more flexibility is needed, and risk managers have been pushing for automated tools for testing for a long time so that they can stress test their liquidity in different and dynamic ways."

**Time to outsource**

For many banks, however, improving their own intra-day liquidity monitoring is not without its own challenges, particularly given their traditional reliance on separate and disparate legacy systems.

"The challenge most banks face is how to collect all the information they need," says Shamim. "Banks need to source and gather liquidity data from multiple systems quickly, calculate it into metrics and consolidate all the information.

Shamim notes that while connectivity is not always a problem, there are some systems which cannot be connected, which calls for manual adjustments to be made to get a complete liquidity position.

As a result of these system and data gathering shortfalls, many banks are now increasingly looking for solutions to help them monitor and report on their liquidity on a real-time basis. While some have outsourced parts of this process to other parts of the world, others have looked to suitable third-party solution providers to help them on this journey. Some are considering building their own solution. But many look to leverage the best-in-class solutions in the market that are trusted by the most advanced organisations across the globe.

Others look to rationalise the total cost of ownership through Software as a Service (SaaS) model and the flexibility that a cloud-based deployment delivers. This reduces the need and cost to manage, monitor and upgrade the solution whilst gaining the benefits of the most up to date offering.

SmartStream has offered its data transformation and regulatory alignment services to banks for many decades and now works with the world's largest players. Its reference data service delivers complete and timely reference data for use in critical regulatory reporting and risk management operations.

Meanwhile, its cash and liquidity management solution help banks to consolidate siloed infrastructure and capture transactions from both internal and external sources to create a single, global view of a bank's balances across all currencies and accounts.

SmartStream also offers a module for Intraday Liquidity Stress Testing, which banks can run to quickly conduct stress scenarios, thereby helping them to improve decision-making and meet intraday liquidity reporting requirements.

"One of our core strengths is the ability to understand the needs of all our customers – not just our bank customers but the banks' customers too," says Shamim.