

IN-HOUSE BANKING

**THE DIVERGENT SHIFT
FROM TRADITIONAL
BANKING**

elire

WHAT IS AN IN-HOUSE BANK?

An In-House Bank (IHB) is a centralized system within an organization that offers services comparable to those provided by external banks. It provides internal entities of an organization with an array of automated treasury services that facilitate traditional banking needs, streamlining and standardizing treasury operations. It enables an organization to easily track incoming and outgoing transactions through optimized payment and account management. An IHB facilitates all of this through utilizing functions like regional treasury centers, internal accounts, nominal cash pooling, multilateral netting, and POBO/ROBO entities. When implemented correctly, an In-House Bank provides organizations with benefits in cash flow visibility, risk management, intercompany loans, and bank independence, that all drastically improve operations and provides them with a true return on their investment.

In-House Banks can be established to support organizations of any size and geographical reach, with functions available to facilitate foreign exchange transactions, hedging, and internal interest calculation. In-House Banks are complex critical processing systems that require strong controls to manage operational risk. Treasury Management Systems (TMS) provide processing solutions that can help organizations manage their various IHB activities. These systems are available through either an on-premise solution or cloud-based service and are the primary tools that an organization's treasury operations uses to automate IHB activities.



WHAT DOES AN IN-HOUSE BANK LOOK LIKE?

IN-HOUSE BANK ORGANIZATIONAL STRUCTURE

An In-House Bank can support most aspects of an organization and its subsidiaries that impact treasury operations on a regional, corporate, and international level. On a regional level, it can be established where treasury teams are able to monitor their in-country cash and liquidity positions. Subsidiaries operating in the region can have access to automated POBO operations that will streamline payment processing and provide easy reporting for accounting purposes. On a corporate level, an In-House Bank provides organizations with efficient global

cash management and bank relationship management. On an international level, an IHB enables organizations to utilize a nominal cash pooling structure and multilateral netting architecture. An IHB has built-in centralized liquidity and investment management, cash forecasting, foreign exchange management, and hedging functions that can all be monitored and managed by treasury teams. The table below outlines how an In-House Bank can add value to existing treasury operations for each of the three levels within an organization.

REGIONAL	CORPORATE	INTERNATIONAL
In-Country Cash Position	Global Cash Management	Implement IHB Cash Pools
In-Country Liquidity Oversight	Corporate Credit Facility	International Liquidity & Investments
Regional Vendor POBO	EBIDA & Covenants	Pool FX Hedge Managements
	Bank Relationships Managements	M&A Due Diligence
	Macro FX Hedging	Cash Forecasting
	Risk & Insurance POBO Treasury Technology	3rd-Party Vendor I/CO Multilateral Netting
		Supervise Cash Pools

IN-HOUSE BANKING FUNCTION: REGIONAL TREASURY CENTER (RTC)

RTC CONSIDERATIONS

It can be challenging for treasury teams in international organizations to effectively manage operations because each country has their own sets of rules, regulations, currencies, and cultures. An In-House Banking system can help navigate these complexities through the establishment of Regional Treasury Centers (RTCs) in strategic locations across the globe. Each RTC works to connect customers and banking partners in foreign countries where complex regulations and unique cultures require local employment. As a result, treasury teams that work within an RTC will have greater control in creating and enforcing organizational norms across subsidiaries.

An RTC will enhance operational efficiency by standardizing processes (i.e. straight-through processing) across regional subsidiaries. It will reduce the costs associated with having accounts in multiple banks across various locations and support bank account rationalization efforts within the entire organization. This rationalization can drastically increase cash visibility, forecasting, working capital, and liquidity resulting in higher yields on available funds.



**LOCATIONAL
INCENTIVES**



**OPERATIONAL
SUPPORT**



**QUALITATIVE
ANALYSIS**



**QUANTITATIVE
ANALYSIS**



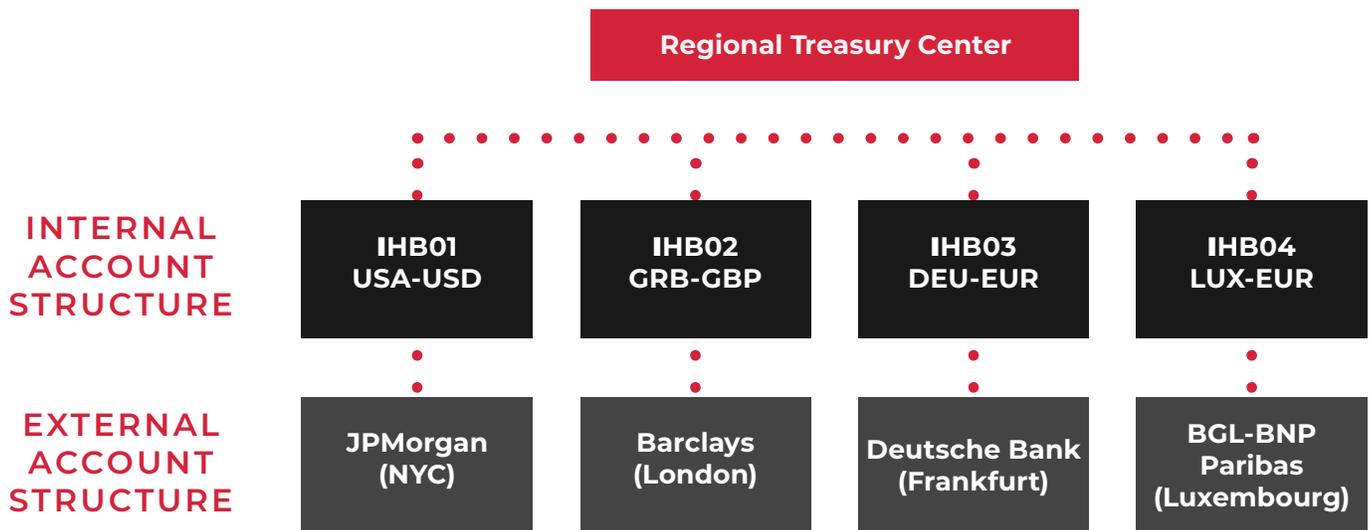
**BANKING
SUPPORT**



**TECHNOLOGY
INFRASTRUCTURE**

IN-HOUSE BANKING FUNCTION: INTERNAL ACCOUNTS

An In-House Bank seeks to replace the number of external accounts held by an organization, replacing them with internal accounts that fulfill the same function. These accounts can carry positive or negative balances and are primarily used to capture intercompany activity. The IHB can then track this activity and calculate interest owed among transacting business units. Additionally, the internal account function with direction from the IHB can support internal multicurrency activity. As the IHB executes internal funding transactions through internal multicurrency accounts, it automatically applies exchange rates and debits the central IHB account while simultaneously generating a matching credit to the subsidiary's account. The In-House Bank will automatically publish monthly internal bank statements, providing organizations with increased visibility into intercompany activity. Internal accounts and external accounts can have a one-to-one relationship prior to bank account rationalization to ensure all activity is captured properly without interruption. Once rationalization is established, adjustment can be made to streamline intercompany activity.

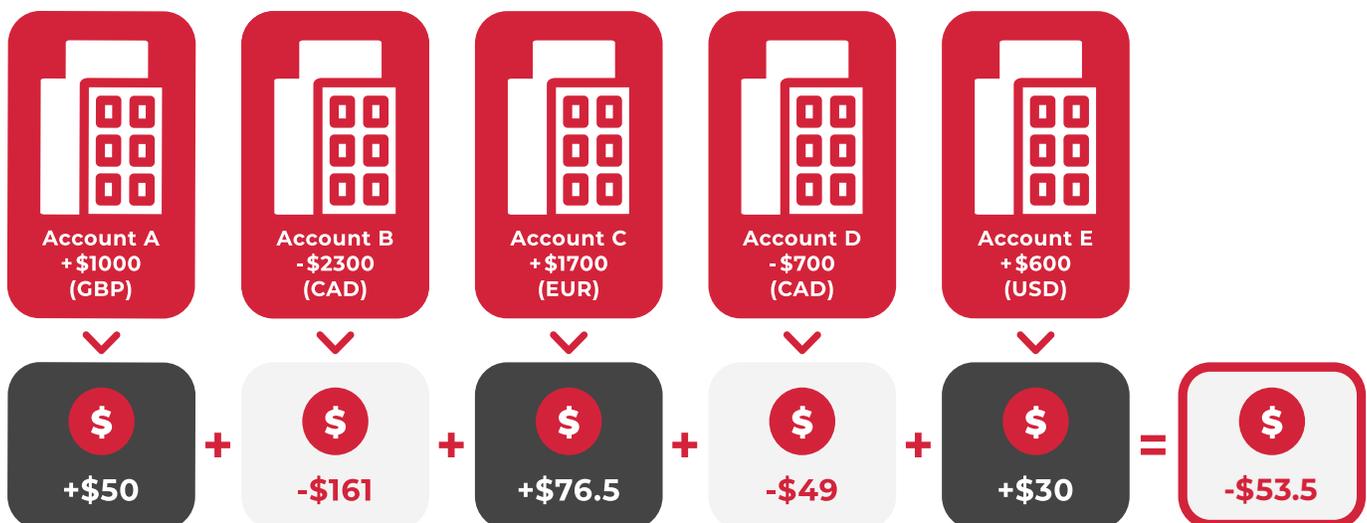


IN-HOUSE BANKING FUNCTION: NOMINAL POOLING

Most organizations are familiar with notional pooling as a service offered and managed through commercial banks. This service pools participant activity and provides immediate relief to negative balance accounts. As a result, costs associated with short term balance fluctuations can be avoided. Positive balances can move to offset negative balances resulting in a more efficient cash utilization.

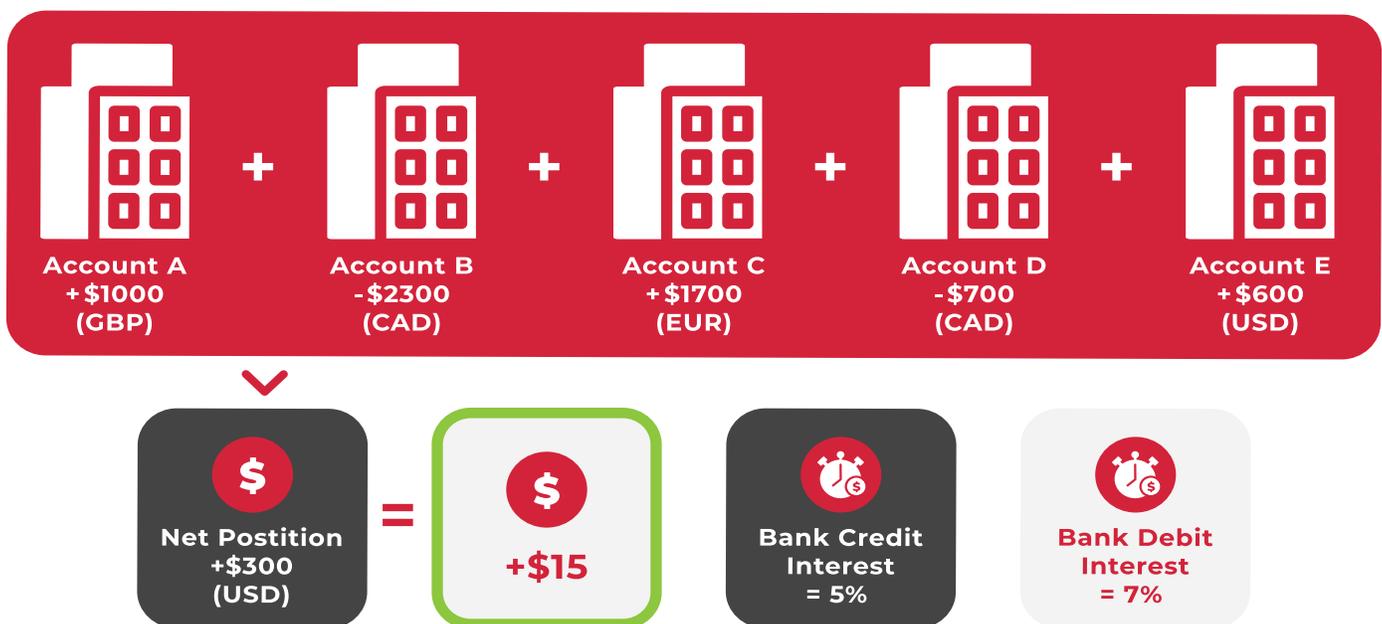
There is a growing trend to move away from notional to, what can be defined as nominal pooling. Instead of engaging with an external bank to support pooling efforts, an In- House Bank provides nominal pooling as an alternative. All the benefits and functions that notional pooling provides are available within the IHB. As a result, a single liquidity position is obtained and managed internally with the elimination of debit interest.

NOMINAL POOLING: SUM OF FUNDS WITHOUT



IN-HOUSE BANKING FUNCTION: NOMINAL POOLING

NOMINAL POOLING: SUM OF FUNDS WITH



Additionally, nominal pooling results in a natural netting process of intercompany AR and AP activity by automating the clearing of inter-entity non-physical cash flows. Nominal pooling structures are traditionally set up in major market currencies such as USD, EUR, GBP, and CAD. They significantly reduce all daily physical cash movements and associated fees. Additionally, they provide nominal daily cash positions that reflect the physical cash needs of pool participants. Treasury teams will also be able to track all non-deliverable functional (NDF) currency positions as well. Finally, any FX trading for funding purposes is performed at the aggregated IHB pool level.

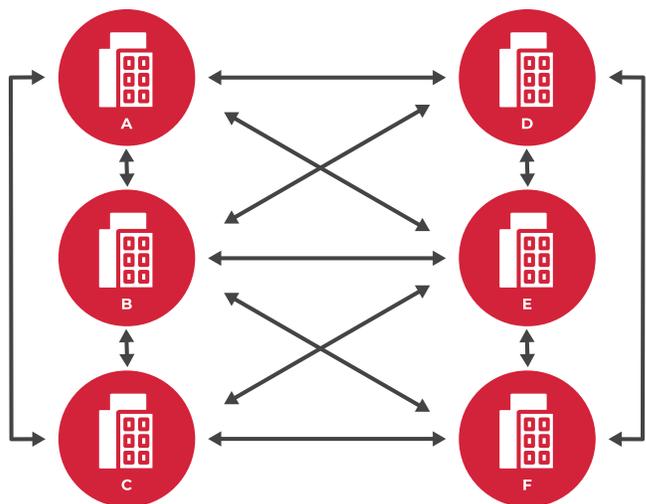
There are some regulatory restrictions that may be in place, depending on where an organization is located. In some locations, such as Italy, they require organizations to disallow debt positions, and in Poland, complex tracking like first-in-first-out (FIFO) is required.

IN-HOUSE BANKING FUNCTION: MULTILATERAL NETTING

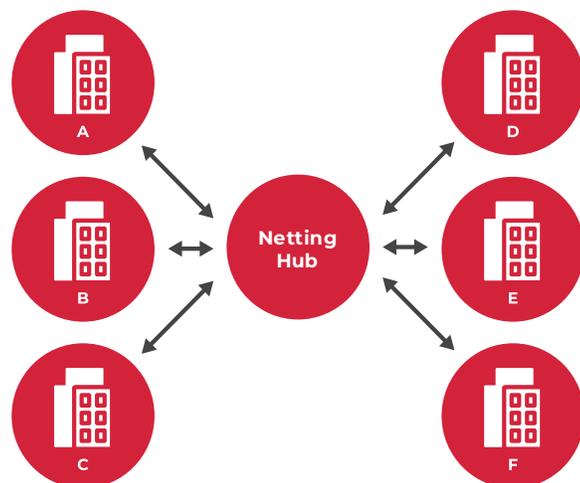
One way that organizations can minimize costs associated with large volumes of crosscurrency transactions is through establishing a netting hub facilitated by a global IHB. The infrastructure an In-House Bank provides allows for automated multilateral netting. The In-House Bank will effectively consolidate transactions between three or more of an organization's subsidiaries. Instead of dealing directly with one another, they inform a netting hub of all planned cross-currency payments. Each entity's transactions will be automatically aggregated into a single localcurrency amount that will either be paid to or received from the IHB.

Having multilateral netting structures in place provides a standardized structure to all intercompany transactions. Since fewer payments are being made, there is a reduction in associated payment costs as well as the number of banks required for managing payments. All payments can go through a single netting hub, providing corporate and regional treasury teams with clear visibility over funding activity. Additionally, the inherent risks in counterparty obligations will also be reduced (credit, settlement, liquidity, and systemic risks).

WITHOUT MULTILATERAL NETTING



WITH MULTILATERAL NETTING



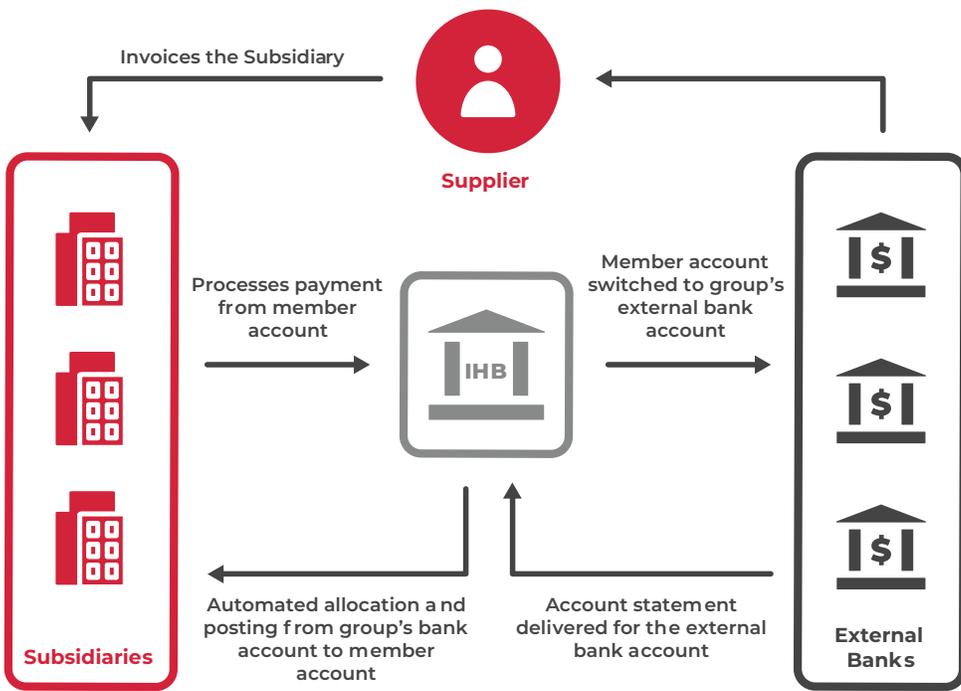
IN-HOUSE BANKING FUNCTION: POBO & ROBO

One of the ways an In-House Bank can optimize treasury operations is by implementing a Payments-on-Behalf-of (POBO) and/or Receivables-on-Behalf-of (ROBO) structure. These payment structures allow an In-House Bank to centralize and automate the payments for several of the group's entities through a Regional Treasury Center (RTC) or Shared Service Center (SSC). The IHB directs the payments to the bank of choice to obtain favorable processing costs, allowing for the negotiation of financing terms. These structures simplify an organization's network arrangements and streamlines operational processes.

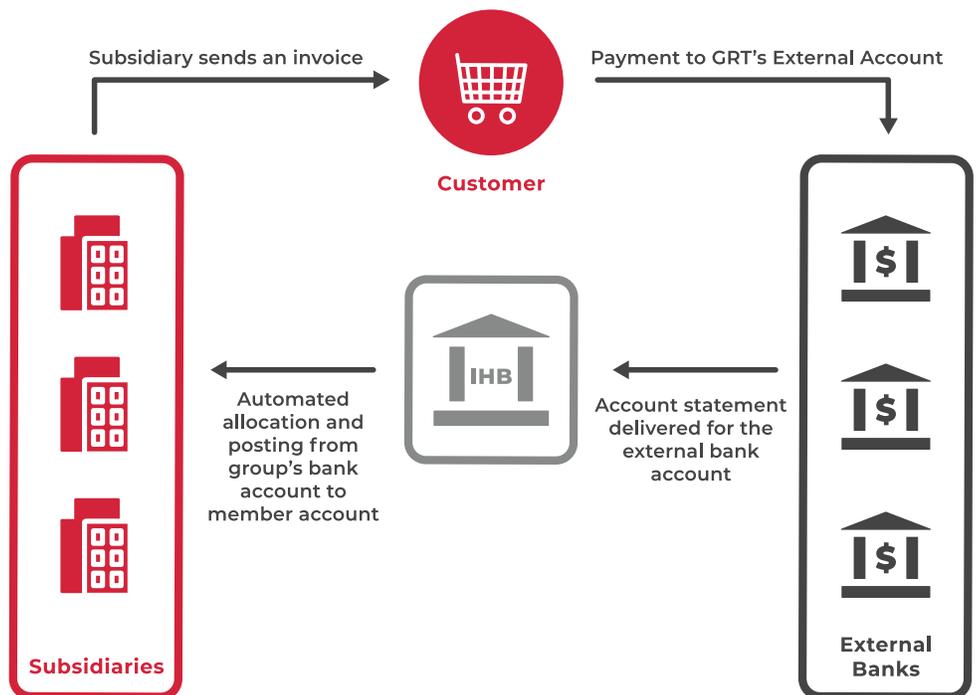
This will improve cash visibility, cash concentrations, and reduce inherent costs associated with payment execution. Having POBO/ROBO operations in place will also offer improved risk management opportunities by consolidating banking relationships and centralizing control. The process begins when either a supplier invoices a subsidiary, or when a subsidiary invoices a customer; this triggers the In-House Banking to kick off the appropriate POBO or ROBO functions.



PAYABLES-ON-BEHALF-OF (POBO)



RECEIVABLES-ON-BEHALF-OF (ROBO)



IN-HOUSE BANKING: BENEFITS

An In-House Bank can provide a wide array of benefits that can help streamline an organization's treasury operations. It will increase cash flow efficiency and visibility by centralizing cash management for different entities, allowing organizations to better manage their accounts, internal transactions, payments, and account statement bookkeeping centrally. In-House Banking will eliminate most manual workflows, automating processes like bookkeeping, month-end closing routines, cash sweeps and flows, and notification management. This will allow employees to spend less time on manual inputs and outputs, and more time performing value added activities.

An In-House Bank comes with built-in risk management systems to help mitigate currency risk by providing treasury teams with a clear view of currency exposure and positions, allowing them to take the necessary actions to hedge FX risk. Replacing numerous external bank accounts with internal IHB accounts will allow treasury teams to control operations while keeping a close eye on payment abuse, effectively reducing the risk of fraud.

Many of the services provided through traditional banking, such as accounts, financing, foreign exchange risk management, and hedging, will be available to organizations and their subsidiaries under a centralized internal entity. It will create an internal payment structure that will reduce the costs associated with transactions, minimize value day losses, and reduce the need for external loans, credit facilities, investment instruments and more. An IHB will streamline the loan approval process and standardize the structure of intercompany loans, allowing overnight tenors and easy interest rate calculation. Additionally, organizations will be able to set their own specific lender and borrower rates.



**CASH FLOW
VISIBILITY**



**LOWER RISK
OF FRAUD**



**AUTOMATED
WORKFLOWS**



**BANKS
INDEPENDENCE**



**CENTRALIZED
CASH LIQUID**



**CURRENCY RISK
MANAGEMENT**

IN-HOUSE BANKING: CONSIDERATIONS

Before deciding to implement an In-House Banking system, organizations should spend time researching and considering the pros and cons of overhauling their treasury operations. They may need to reevaluate their existing policies or create new ones depending on the functionality they would like to deploy. Organizations may need to revise internal agreements to define minimum operating cash amounts to enable cash sweeps and zero-balance accounting. All nominal balances within an IHB system achieve a natural daily netting function, which will require the creation of a netting structure. Each business unit in the netting structure will require review and pre-approval for all netting, which may require the installation of a user online interface or reporting process. In order to implement cash sweeping (i.e. nominal pooling), organizations need to reevaluate and be prepared to overhaul their current bank account architecture. They will have to consider time zones, as accounts with deliverable functional currencies may not be included in the cash sweep due to time zone discrepancies. To prevent this, a sweep construct may need to be installed.

To reap the benefits an IHB offers, organizations will need to define and dedicate resources for each function they wish to deploy. For example, if an organization decides to implement an RTC, satellite offices will be required to sweep business unit bank accounts to a zero balance. Additionally, organizations need to determine the best locations for deploying an In-House Banking system. Taxes and regulations will need to be considered as they may impede daily operations. For example, many locations withhold taxes on bank interest, and others have high transfer pricing between bank accounts. Some locations also have restrictions on the types of transactions that are permitted, meaning that POBO/ROBO operations might not be viable.



**RESOURCE
REQUIREMENTS**



**POLICY
CHANGES**



**BANK ACCOUNT
ARCHITECTURE**



LOCATION



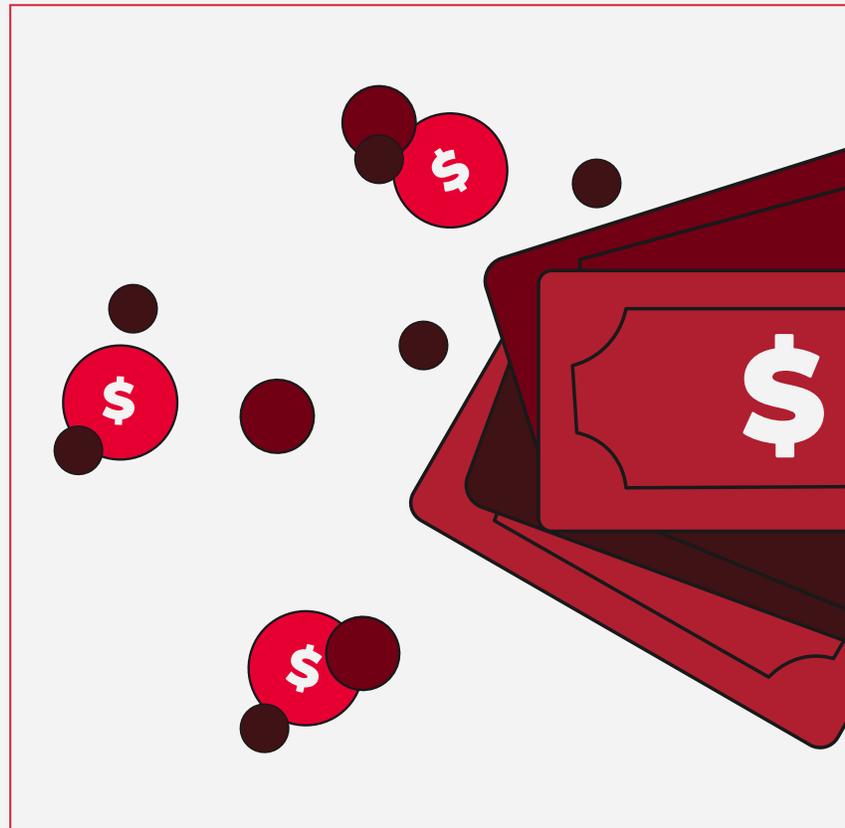
**NETTING ACCOUNT
ARCHITECTURE**

RETURN ON INVESTMENT ON AN IN-HOUSE BANK

An In-House Bank can accrue costs quickly during implementation, but once IHB functions are implemented correctly and automated through a Treasury Management System (TMS), organizations will start to see a true return on their investment (ROI). The value of an in-house bank can be measured by its cost reduction, productivity gains, and financial and strategic benefits. Additionally, organizations see efficiencies in compliance, controls and fraud prevention.

In-House Banks allow organizations to improve their existing controls and introduce any additional compliance controls that may be required to comply with internal policy or external regulations. Automated IHB functions will reduce errors and increase fraud prevention by standardizing processes across all subsidiaries and will provide numerous strategic benefits including in-depth cash visibility and easy tracking and management of the system operating these automated functions. This increased visibility opens doors for organizations to build additional strategies and tactics to run operations.

The most noticeable qualitative benefits can be seen through the reduction of manual workflows. Understanding quantitative benefits of an IHB requires a deeper dive into current operations and proposed future operations (with an IHB/TMS). Conducting a thorough cost-benefit analysis on implementing an In-House Bank (and TMS) will provide high level insight into an what the estimated quantitative investment costs will be, and what some of the long-term benefits/ savings will look like.



IS AN IN-HOUSE BANK THE RIGHT CHOICE?

Expanding Treasury Operations by implementing an In-House Bank has become the trend amongst growing organizations.

While In-House Banking is compatible with organizations of any size and geographic reach, it may not be the right choice for everyone. It is important to conduct a thorough quantitative and qualitative analysis of the benefits and risks associated with implementing an IHB. Organizations should also consult experienced subject matter experts to help determine if an In-House Bank is the right path and how to go about successful and optimized implementation.

CREDITS



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