How will DLT affect corporate global cash management?

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In this whitepaper we take a look at corporate liquidity management and how distributed ledger technology (DLT) can improve global cash management in the future.

The Corporate cash hoards

According to Wall Street Journal, the corporate cash hoard is the largest ever, reaching up to USD 15trillion. Part of this cash can be explained by the Pandemic as many corporations, as a precautionary measure, have utilised their banking facilities to safeguard themselves in uncertain times. Estimates are that as much as 20-25% of total cash could be held within different subsidiaries outside of head-office. Some of the cash abroad may be trapped due to currency restrictions or tax issues but large amounts are held outside of head-office due to the inefficiencies of today's payment system. The problems related to cross-border payments lead many corporations to maintain balances in their subsidiaries or credit lines with banks "just in case". This is similar for many financial institutions such as PSPs that maintain a network of prepaid accounts around the globe to enable fast payouts for clients.

The cost of this cash is high as deposit rates are at record lows (and in many currencies negative) while shareholder expectations of returns on capital are starting at 7-8%. Reducing liquidity and returning capital would imply significant savings for the owners.

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DLT as the next generation of payment methods for cross-border payments

The new generation of payment platforms based on DLT will lead to dramatic cost savings. Corporates can operate directly on payment platforms without the intermediation of banks and maintain accounts on digital ledgers instead of cash accounts.

Without the legacy infrastructure they are able to make direct transfers in real time to subsidiaries, suppliers and financial intermediaries 24/7. Liquidity could be maintained at head office and once an unexpected cash need arises an automatic real time payment is initiated. This reduces the need for local cash pools and cash can be returned to head office and eventually to the owners.

With API connections, new DLT based payment methods could easily be integrated and configured into existing Treasury Management Systems displaying digital ledger balances alongside other bank accounts and the possibility to send payment files using the same processes.

Banks in the new DLT world

Banks would still play an important role in international payments. They would serve as liquidity providers by converting digital assets into fiat in local currencies bridging the fiat and the digital worlds. For Banks this could be an attractive business and generate new fee based income and FX earnings. Banks would also serve an important role as provider of digital accounts and implementer of regulatory requirements such as AML screening. However, with more and more local RTGS systems (real time gross settlement), the Banks earning the fees may not be old legacy banks, where the corporate fiat accounts are held, but more likely upcoming NeoBanks, comfortable with new technology and digital assets. They can provide the “last mile” within the local payment system and do payouts via Open Banking. Global cash management would change at its core. In the end game, once CBDCs (Central Bank Digital Currencies) are introduced, no more fiat accounts are necessary.

In addition digital money opens up for new business models and ways to interact with clients and suppliers. Why not scan a QR code once goods have been delivered, releasing an escrow and a cross-border payment simultaneously sent to the seller of the goods? Or utilise smart contracts so that the payment is executed immediately as someone utilizes your product in a pay per use scheme? Many interesting opportunities ahead.

Let us know if you have thoughts and inputs on the future of corporate global cash management! Mail us at info@centiglobe.com.

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