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Virtual accounts: Real-life benefits in real-time

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Proliferation of bank accounts, unreconciled suspense entries and fragmented liquidity are challenges for both domestic and international corporations. Virtual accounts tied with automated liquidity management structures provide a scalable way for treasurers to automate processes and simplify liquidity management whilst concurrently reducing physical bank accounts and streamlining resourcing.

When asking a treasurer about their business, they typically cite the number of bank accounts as a measure of the scale and complexity of the treasury function. How valid a measure is this, however? Every bank account adds complexity: it needs to be reported on and reconciled, balances managed, and authorised signatories maintained. Every account also has a related cost and represents a potential security risk without adequate oversight over signatories and balances. With virtual accounts and virtual ledger solutions maturing and becoming more interconnected with liquidity management structures however, we could be seeing a reversal – in which the sophistication and effectiveness of treasury is measured not by how few accounts they have, but by how many virtual accounts they have.

Solutions for every treasury demographic

Treasurers' desire to reduce the number of physical bank accounts is not new. For example, many larger corporations have set up in-house banks, in which treasury provides banking services such as funding, investment, cash, liquidity and risk management to group companies. As part of an in-house bank, treasurers are increasingly introducing payments on behalf of (POBO) and/or receivables on behalf of (ROBO). Under these arrangements, companies make payments or collect incoming flows 'on behalf of' group companies, removing the need for these entities to hold their own bank accounts. These implementations are not frictionless as customers may prefer to pay a local account – while suppliers may challenge, or find it difficult to identify and reconcile payments made by an entity different to the one that they invoiced.

The need to simplify and streamline cash and liquidity management is not limited to large multinational businesses. Scalable, accessible solutions are also required by smaller or less mature treasuries that have not yet built sophisticated in-house banking and 'on behalf of' structures. Consequently, virtual account solutions emerged, starting with supporting automated reconciliation and moving on to simplifying liquidity management for treasuries of all sizes and levels of sophistication.

Tangible benefits to virtual accounts

Companies can use virtual accounts in a variety of ways to meet their specific needs, whether they operate in one country or many, either as a single solution or in conjunction with solutions such as cash pooling, POBO and ROBO. Virtual accounts are linked to a single physical account. Treasurers and finance managers can set up as many virtual accounts as they need and some banks even provide online account maintenance functions. For example, some companies choose to assign a virtual account to each customer while others may assign a virtual account to their individual subsidiaries or divisions. Customers make payments to the virtual accounts but remittances are automatically routed to a single bank account, typically by currency. The virtual account number is used as a reference field for automatic reconciliation, account posting and reporting purposes.

For both domestic and international companies, virtual accounts offer a range of advantages. The number of physical accounts can be rationalised, reducing cost, risk and administration. Automatic reconciliation rates are higher, and remittances can be posted immediately to customer accounts, freeing up credit lines more quickly.

As companies expand geographically and acquire new entities, their liquidity management needs become more sophisticated, so virtual accounts become part of a broader treasury strategy, potentially also including cash pooling, POBO and ROBO. Treasuries can operate as in-house banks through virtual ledger accounts, combined with automated liquidity management structures that provide intercompany limit tracking and interest settlement. This is a cost-effective way of providing an in-house bank service, with less implementation effort than using physical accounts.

Real-time liquidity management

While reconciliation and reporting are often the reasons companies first choose to implement virtual accounts, there can also be significant liquidity benefits. In particular, by holding a single account rather than multiple accounts, cash is automatically centralised in one location, with balances available for use as soon as remittances are credited to the bank account. With many countries moving to domestic faster payments and the SWIFT gpi (global payments innovation) initiative resulting in faster credit of cross-border payments, the ability to reconcile accounts receivables in real time is critical. This capability allied with solutions like just-in-time cross-border sweeps allow clients to centralise cash and deploy it for payments exactly when needed.

As companies expand geographically and acquire new entities, their liquidity management needs become more sophisticated, so virtual accounts become part of a broader treasury strategy, potentially also including cash pooling, POBO and ROBO. Treasuries can operate as in-house banks through virtual ledger accounts, combined with automated liquidity management structures that provide intercompany limit tracking and interest settlement.

There are inevitably issues to consider when implementing any new cash or liquidity management solution, including regulatory, tax and currency implications. The need to manage the cost of change, such as communicating new settlement instructions to customers and adapting systems also needs to be factored in. However, as companies continue to expand internationally and adopt new business models, the value proposition of holistic virtual account solutions, combined with automated and increasingly real-time liquidity solutions, is enhancing. Crucially, companies can build-in additional services progressively, without disruption, as their needs evolve and new opportunities and demands emerge.

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