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Research Paper on Cash Flow Management of Banks

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I. INTRODUCTION

The banking sector has an impact on economic growth and development since it is intimately tied to the creation and use of money. The primary function of the banking system is to generate savings from deposits, use those savings for profitable investments, or lend those savings to other individuals for various investment goals. As a result, banks serve as essential financial intermediaries, transferring to borrowers and consumers the monies required by investors. In this aspect, banks must manage their cash flow effectively. If with other types of management, there is a trade-off between risk and return in cash management. As a result, if cash management is improved, there is more cash relative to a finite number of resources, which raises the share price of a financial institution. In this essay, the effects of cash management in Iranian banks on their stock value in 2011 was investigated based on the econometric model and least squares technique. The results indicate a significant and positive impact of an increase in the cash management index on the value of bank shares, which means that a one percent increase in this index will increase the value of bank shares by 1.1 percent.

Corporations maintain basically three cash balance reasons. Their ebb and flow of cash payments are not perfectly ephemeral , therefore a cash inventory is needed to slow these flows. Companies maintain cash as insurance against unfavorable future events in their cash flows and when interest rates fluctuate because both cash flow and interest prediction rates are uncertain. Third, businesses use their cash holdings to pay their banks for a range of services that might be offered. The issue of figuring out the ideal amount of cash balances required to support a corporate banking system is the main topic of this essay. The model outlined below provides the ideal level and interbank distribution of cash balances on which the overall costs of the banking system are minimized. The opportunity cost of remaining cash balances as well as any fees are included in the overall cost. In addition to determining the optimal allocation of cash balances, the model will determine the best allocation control and deposit activities of the company within the system. As will be discussed later, the model is also extremely useful for evaluating proposed changes in the structure of the banking system.

Large banks may employ various liquidity management methods depending on their business models and interest rate differences between alternative liquidity instruments as the overall supply of reserves decreases and liquidity constraints are put in place. For instance, banks may keep holding significant amounts of surplus reserves, invest in government or agency securities, or reduce their balance sheets.

Cash flow is the lifeblood of any business, but especially for banks that need to manage liquidity, profitability, and solvency. Cash flow metrics and indicators help banks monitor and report inflows and outflows, identify potential risks and opportunities, and optimize financial performance. In this article, we will discuss the key cash flow metrics and indicators that banks should monitor and report, and how they can be used to manage cash flow.

The term cash management refers to the day-to-day management of cash inflows and outflows. Since there are many cash transactions every day, you need to manage them.

In this paper, we will be discussing how banks manage their cash flow which includes:-

1. The Process banks use.
2. The Software banks use.
3. The Indicators of poor cash flow management.
4. The Indicators of effective cash flow management.

And also what effects does cash flow management have on banks and how do consumers get affected by it?
This paper will also showcase new methods and possible improvements in cash flow management.
The paper will also point out the shortcomings and mistakes in the process of cash flow management.

II. LITERATURE REVIEW

Treasury management, another name for cash management, is the process of gathering and overseeing cash flows from a business's financing, investing, and operating endeavours. It's crucial to the financial stability of a company in business.

The meaning of cash

Money is the main asset that people and businesses regularly utilise to pay their debt commitments and operating expenses like taxes, employee wages, inventory purchases, advertising costs, and leases, etc.

Cash is used as working capital to fund non-current assets including property, plant, and equipment (PP&E) and other non-current assets. After expenses are deducted, dividend payments are frequently made using remaining funds.

For businesses to maintain a decent level of business stability, substantial capital inflows and outflows must be appropriately managed. Another significant concern for people is keeping their bank accounts balanced.

Understanding Cash Management

CFOs, business managers, and corporate treasurers are often the main people in charge of an organization's overall cash management plans, stability analysis, and other cash-related duties. However, a lot of businesses may hire some service providers to handle all or part of their cash management duties.

The primary tool for managing a company's cash flow is the cash flow statement. All of the organization's cash inflows and outflows are fully detailed in the statement of cash flows. consists of cash generated by operating activities, cash used to fund investing activities, and cash generated by financing activities. The organization's available cash is indicated by the cash flow statement's bottom line..

The three categories of investment, financing, and operating operations make up the statement of cash flows. Net working capital, which is shown in the statement of cash flows as the company's current assets minus current liabilities, forms the foundation of the operating portion of cash activities. Businesses aim to have a current asset balance greater than a current liability balance.

Inflows and outflows of cash related to investing and financing, such as real estate investments, purchases of new machinery and equipment, and repurchases of original stock or dividend payments as part of financing activities, are shown in the other two sections of the cash flow statement.

There are many internal controls used to manage and achieve efficient corporate cash flow. Some of the main considerations for a business's cash flows include the average duration of accounts receivable, write-offs of uncollected receivables, collection processes, rate of return on investments in cash equivalents, liquidity and credit line management.

What is included in working capital?

Working capital often includes the following items:

Current assets,

1. Cash,
2. One-Year Receivables,
3. Inventory

2. Accounts payable within a year and short-term loan repayments that are due within a year are considered **short-term liabilities.**

In the operations portion of the statement of cash flows, organizations typically note the change in working capital between distinct reporting periods. The business has grown its current assets that are available to cover current liabilities if the net change in working capital is positive.

If the net change in working capital is negative, the business has increased its current liabilities, which reduces its ability to pay its liabilities efficiently. A negative net change in working capital also reduces total cash on the bottom line.

Causes of cash management problems

Unfortunately, many businesses deal with poor cash management and there are several reasons for this problem. Let's look at some of them:

Poor understanding of the cash flow cycle

The timing of cash inflows and outflows from the company, including when to pay liabilities and buy inventory, should be well understood by management. A corporation may run out of money during a period of rapid expansion as a result of

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over purchasing merchandise but not receiving payment for it.

Poor capital investment

A business may invest money on initiatives that, in the end, don't yield enough of a return on the capital invested or enough cash flow to cover the costs of the venture. In that situation, the investment will result in a net drain on the cash flow statement, which will eventually affect the company's cash balance.

Banks keep liquid securities mainly to address short-term liquidity requirements during stressful times and continuous operating funding needs. The services a bank offers, how it interacts with its customers, and the types and amounts of funding it offers are all influenced by its business model. Three business models are differentiated here:

Retail, business, and investment banking are among the many activities that universal banks like JPMorgan Chase engage in. Trust banks like Bank of New York Mellon focus on asset management and investment services for institutional clients. Legacy broker-dealers like Goldman Sachs started out as investment banks before transitioning into bank holding companies during the 2008 financial crisis.

Banks are required to publicly report their anticipated net cash outflows for a thirty-day calendar period, broken down by balance sheet category, under the Liquidity Coverage Ratio (LCR). These periodic reports tell us of the decisions banks make in terms of managing their liquidity. The graph below's first column displays the typical gross outflows from categories of substantial liabilities for the eight largest banks (G-SIBs) from 2017: the first quarter for which institutions were required to provide data—through 2018:Q2. Additionally, the graphic displays the typical bank shares for each of the three business strategies. Although the LCR calculation utilises net outflows (i.e., gross outflows net of cash flows), we concentrate on gross outflows to highlight the extent of trading activities.

Objective of the study

We started this study in order to obtain knowledge regarding the cash flow management of banks and how corporations basically maintain three cash balance reasons. Since their ebb and flow of cash payments are not completely ephemeral, a cash inventory is needed to slow these flows. Because it is difficult to predict cash flows and interest rates, businesses maintain cash as insurance against unfavorable future developments that may affect their cash flows and fluctuating interest rates. Third, businesses pay banks for a variety of services that might be rendered using cash balances. In this essay, the issue of figuring out the ideal quantity of cash balances required to sustain a corporate banking system is the main topic. The model outlined below establishes the ideal level and interbank distribution of cash balances for minimizing the overall costs of the banking system. The opportunity cost of remaining cash balances as well as any fees are accounted for in the final cost immediately paid to banks. The model will choose the best control and deposit activities for the organization within the system in addition to choosing the best allocation of cash balances. The model is also very helpful for assessing suggested modifications to the financial system's structure, as will be covered later.

With further objectives being:-

1. Showcasing the importance of cash flow management in banks.
2. Relation of cash flow management and profitability.
3. Interpreting the indicators of cash flow.
4. Sharing insight into cash flow management with colleagues and seniors.
5. Finding new methods of cash flow management.
6. Find ways to better the cash flow management of banks.
7. Relating theoretical knowledge to real-life events.

Research Methodology

This research paper was made using qualitative research methodology using secondary data available on websites and on E-Books.

This research included of the following steps:-

- Finding suitable and relatable literatures over the internet.
- Reading the works of scholars such as H Zhang, GA Pouge etc.
- Reading the well known sites and magazines relating to banking services online such as CFI, US Bank official website and other bank official websites in order to look at the real time and life applications of cash flow management in banks.
- Filtering the required data relevant to this research paper.
- Making a thesis based on the filtered data.
- Checking the thesis for corrections, improvement and also need for additions etc.
- Revising the thesis for the last time.

- Elaborating our findings properly through the literature review.

Challenges faced during research

- Many of the related works and articles were hard to access due to the fee requirement for accessing the documents.
- Finding India based researches.
- The data acquired was large and had very little to no suitableness to our project so the filtering process was long and tedious.
- We tried to get detailed cash flow transactions and habits of banks but were unable to, so this research paper was unable to actually look at the state of banks in raw data and had to make do with the data available.
- The diversity of processes used by the banks made it hard to encompass them in a single paper.

Findings of this research

- This research concluded to be a very informative document in this field as there are no other documents containing this data in a single paper and elaborated as per the need of scholars looking for total understanding of cash flow management in banks.
- This research also showed that the cash flow management have been historically been very important and has been improved time over time and resulted in benefitting the banks as well as the monetary ecosystem of nations along that as not only banks are benefited by these methods but also the consumers which are mainly businesses, resulting in better market conditions and thus resulting in gain of industries and nations as a whole.\
- The use of artificial intelligence will play a great positive role in this segment of banks and will greatly determine the future of the cash flow management and could possibly introduce great changes
- In conclusion the cash flow management of banks has been an important concept since a long time and will continue on to be and looking at the advancements and investments in this segment it shows that it will flourish even more, meaning there could be a great boom in the market.

III. DATA ANALYSIS AND INTERPRETATION

Although treasury teams are expanding to take on more strategic tasks, their primary duties remain the same: understanding how much money the company has, where it is held, and how to use money as efficiently as possible to ensure that the company gets the most out of its resources.

Treasury need a clearly defined methodology to cash placement and cash forecasting in order to obtain visibility into liquidity. For businesses of all sizes and levels of structural complexity, these processes—which are distinct but closely related—are crucial to daily financial operations and decision-making.

On a broad scale, cash positioning and forecasting can assist firms in many ways, including maximising investments, reducing costs, outlining expansion plans, and much more.

How does cash positioning work?

To make sure there are enough funds to satisfy daily operational needs, the practise of cash location involves collecting daily account balances and transaction data in one spot. An Excelspreadsheet or cash management software with facilities for cash flow planning could be used for this.

Why is this crucial? Cash positioning has two different levels at which it can be expressed:

• It ensures that the company has a clear understanding of its cash position and available resources to meet obligations.

• It offers a concise, understandable summary of liquidity that enables company executives to make decisions that maximize their resources.

• What is involved in the procedure? Even billion dollar organizations utilize Excel to place their capital. This implies that every company, regardless of size, is capable of managing a daily financial situation.

There are a few things to consider to get started:

• List all accounts, including those used for payroll, for both domestic and foreign activities, or by particular business sectors. Displaying significant accounts with the greatest activity prominently is the best practice.

• Create a worksheet or template that illustrates how your company handles funding and cash flow. Establish the appropriate level of detail without making the procedure too onerous to create a job.

• Gather important information, possibly categorized by transaction type, such as opening and available balances, anticipated inflows/collections, and anticipated outflows/payments.

• Automate data collection from your bank and internal systems using technology solutions

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IV. CONCLUSION

This study has shown us that cash flow management is a very tedious, complicated and continuous task which is essential for the survival, growth and functioning of our economy as a whole.

Cash flow management affects economy as a whole as it not only dictates the profitability of banks but also the schemes and services provided by the banks to its consumers, usually commercial ones are the ones who benefit the most from the efficient cash flow management of banks as they also use these services in order to improve their management and increase their earning capability as a business entity.

Due to this function bank is able to retain the class of the services it offers and this function also affects the interest rates which bank offers and also the interbank exchange rate.

Efficient cash flow management is not a work of an individual but a large group working in harmony to uphold the weight of this function.

The cash flow management system is supported by a lot of software and techies and finding more ways and methods to further increase the efficiency and simplify the work, the future of this industry is looking very bring considering the advancements it has gone through both technologically and through knowledge of scholars studying the subject of finance.

Cash holdings of banks is a very complicated matter and it certainly affects the earning capability of a bank. Why do major US banks hold significant amounts of low-yielding cash in addition to meeting liquidity requirements? Our analysis shows that large banks have long-term required levels of cash and manage their actual cash balances close to required amounts. However, this required amount changes over time with the composition of each bank's balance sheet (which is in turn heavily influenced by its business model, more generally) and the opportunity cost of holding cash relative to earning assets.

It all comes down to this: maintaining control over cash flow is crucial for corporate success.

Ineffective cash flow management is one of the key causes of small business failure. If no money is coming in the door, it doesn't matter how many sales you have in a quarter.

Put your attention on managing your cash flow, internal cash control, and cash-related policies.
Strong company governance and the separation of roles are essential for business growth. Establish guidelines for signing authority with restrictions, authorized approvals, and bank account reconciliation.

AP automation is the first step in modern cash flow management. Consider implementing a platform that mechanizes daily tasks, reduces errors, and projects future revenue. This is a good start to learning cash flow management and making sure your business is never in the red.

V. DISCUSSION

The subject cash flow management on banks has been extensive and complicated.

This study has shown the ability to manage cash flow has a tremendous impact on profitability and function of an organization and can entirely change the state of an organization.

Cash flow management has been introduced with many technological advances and now this segment has shown the need of individuals highly skilled in IT and Finance at the same time making the competition tough and enabling change in the work culture of this segment

APIs are being accepted all over the world in order to verify transactions and keep in track of there transactions, many institutes have been denying the acceptance of this technology and have fallen behind their competitors because of this, APIs are game changing software offered by many brands namely some of those are- Boomi, Celigo, Cleo etc.

Cash flow management has been easier in India too since the launch of digital India project as the transactions are being made online and being recorded online at the same time it has been made easier to keep track and manage these transactions in the record of banks making UPI transactions a major contributor to the cash flow management sector.

As a result of prevalence of these online transactions banks have started to hold less and less cash due to consumers favoring the online transactions more than these transactions, online services used to be very expensive but since the development of these services in such a way government is also helping to make these even more affordable by deducting the charges which were being cut for the usage of UPI service on merchant transactions.

Cash Flow Management has been pressurized since the time of covid-19 and has shown considerable growth within this time frame and has stood strong amidst all the trouble and upheld the financial environment globally.

Even with so many advancements in this sector there still remains possibility of growth and it has been growing tremendously and will continue to grow because of the pressure of economic recession in the world.

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