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White Paper

Is Liquidity a Financial Institution's Most Undervalued Asset?

The Right Solution Can Help Monetize Liquidity Without Undue Risk

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In its simplest form, liquidity refers to how quickly available funds can be accessed. For financial institutions, it is the efficient allocation of financial resources while managing capital and risk. Liquidity is therefore fundamental to the smooth running of the financial system, ensuring stability in financial markets.

Liquidity enables financial institutions to meet financial obligations, whether funds are immediately needed at the time a payment is made or at some later stage when the obligation is due. Without sufficient liquidity, that payment will fail, which can have a significant cost and systemic impact on all parties involved, including the financial stability of the financial institution.

Meeting the Demand for Liquidity Management

There is increasing pressure on financial institutions to effectively manage their liquidity risk. In the past, liquidity management was limited to end of day liquidity monitoring. Solutions were implemented within existing frameworks and data had to be manually collected, aggregated and processed across systems.

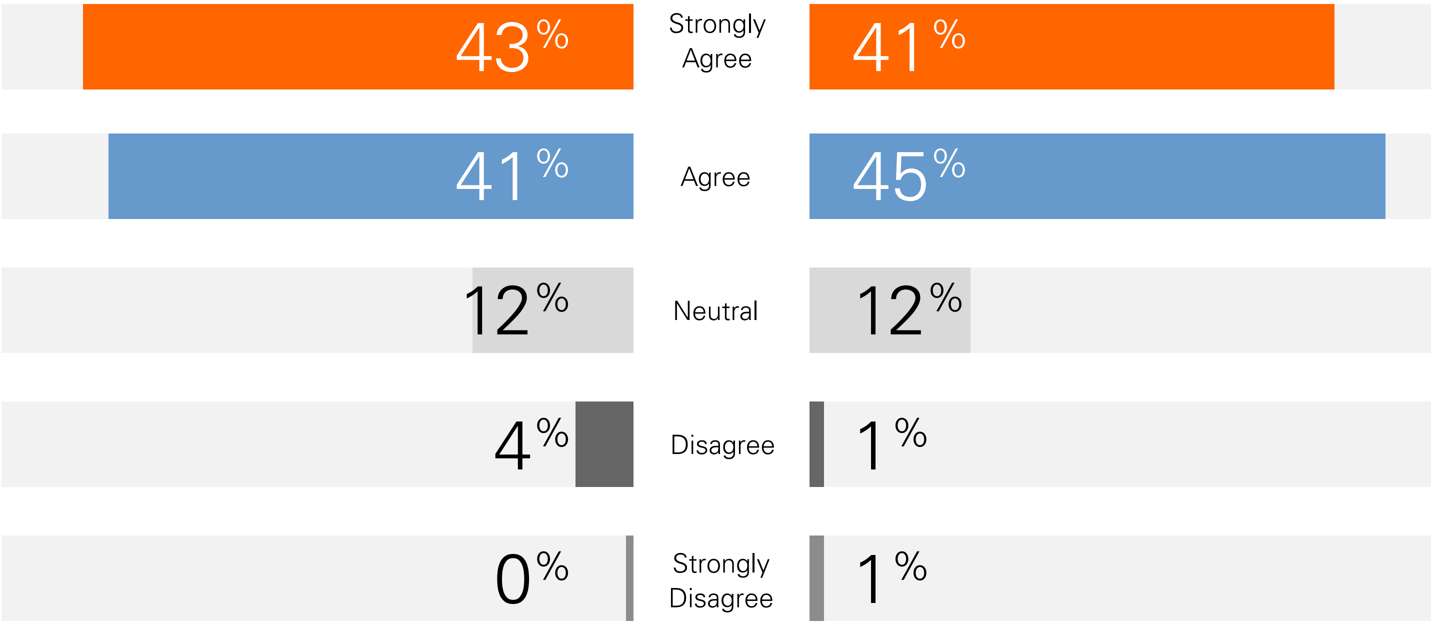
In a 24/7 real-time world, "end of day" has little meaning. Financial institutions and their users need tools and processes for efficient management of cash and liquidity in real-time, all the time. Regulators are demanding real-time monitoring and reporting. Treasury departments are trying to optimize liquidity positions and forecast future demands on liquidity. Payment operations departments need to make effective use of the liquidity that is made available to them.

In Payments Transformation: Immediate, Intelligent and Inclusive, a survey commissioned by Fiserv in 2020, 84 percent of respondents agreed that the growth of real-time payments is driving the transition to new cash and liquidity approaches.

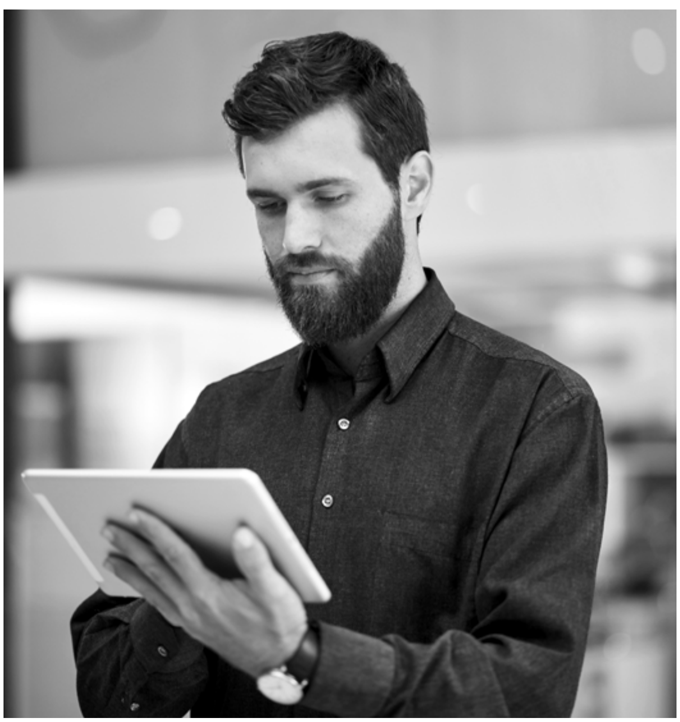
In the same survey, 86 percent of financial institution respondents said a real-time approach to cash and liquidity management will improve intraday liquidity.

The Growth of Instant Payments Schemes Is Driving the Transition to New Cash and Liquidity Approaches

A Real-Time Approach to Cash and Liquidity Management Will Improve Intraday Liquidity



Source: Payments Transformation: Immediate, Intelligent and Inclusive Report



While forward-looking financial institutions have endeavored to manage their liquidity positions, they have encountered roadblocks due to the complexity of identifying data and consolidating it across multiple siloed systems, partners and correspondents. Limited technical capability, operational processes, controls and availability of quality data have caused financial institutions to struggle with real-time monitoring and management of intraday liquidity risk. Most organizations lack the robust systems and tools to achieve this level of liquidity management.

With good systems in place, financial institutions can track available liquidity and cash flow needs, identify how to meet them and determine where to source needed funds.

Satisfying Corporate Customers

Many financial institutions want more than monitoring. In an increasingly innovative and competitive space, financial institutions are looking to offer efficient cash management services to retain their corporate customers. Corporate treasurers expect their financial institutions to provide real-time insights of their cash and liquidity positions without having to make substantial investment in management systems.

In the 2020 survey, 84 percent of respondents agreed that real-time cash and liquidity services will provide greater visibility, access and control to corporate treasurers of their bank account balances, transactions and money movements, as well as future payables and receivables information.

This requires liquidity management to progress from a simple regulatory tick box into a platform for cost optimization and innovation, and a center for revenue generation. The opportunities afforded by migration to ISO 20022 and faster cross-border payments go beyond compliance; they are opportunities for financial institutions to finally address their intraday liquidity management propositions.

Emerging business uses such as funding, liquidity buffers optimization, intraday credit measurement and cost allocation require sophisticated tools. These include real-time processing, cross-asset visibility, forecast accuracy, limit management and the capability to interact with payment flows.

Traditionally, there has been a data-centric approach using ELT (Extract, Transform, Load) solutions to try to obtain meaning from disparate data elements. What is needed today is an approach that understands the context in which the data was generated, the business rationale inherent in the data, and the relationships between the various systems that impact individual and consolidated liquidity positions.

The ideal solutions go beyond regulators' demands for reporting liquidity positions and exposure; they enable a financial institution to use its liquidity positions effectively, optimizing the use of liquidity and monetizing excess liquidity without adding undue risk to the organization.

By extending this in-depth understanding of liquidity to their customers, financial institutions provide them with real-time business insight into their payments. It reveals how these payments affect their funding requirements and how changes in their behavior can have a positive impact on cash flows, improving forecasting and liquidity management.

Gaining a Competitive Advantage

The liquidity management journey for financial institutions has been complex and rapidly changing, with a need for solutions providers to rapidly innovate to keep pace with the required demands. Accurate, timely and proactive management of liquidity positions can give financial institutions a competitive advantage, extending their markets and ecosystems to include innovative fintech and paytech companies whose propositions are built on rapid and short-term liquidity availability.

As financial institutions move away from the reporting elements of the regulations, they need to adopt a comprehensive, end-to-end solution that supports more effective real-time liquidity management. That solution will enable decision-making and actions that not only mitigate and manage risk, but also optimize positions.

Connect With Us

For more information about payments and liquidity solutions:

800-872-7882

getsolutions@fiserv.com

fiserv.com

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Fiserv, Inc.
255 Fiserv Drive
Brookfield, WI 53045
fiserv.com

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