FINASTRA

Factsheet

# Fusion virtual account management services

## Turbocharging legacy banking systems

### Key drivers

1. **Regulation and compliance:** Basel III, compliance standards, central reporting, PSD2
2. **New technologies:** Aggregators, data visibility, and forecasting integrators
3. **Corporate demand:** Real-time, artificial intelligence, automation, greater control and deeper insight

**Treasury priorities and challenges have changed. According to IDC's 2019 global corporate treasury survey, access to funding and managing risk are the top priorities for treasurers. The next most important are real-time data and payments liquidity optimization — ensuring that corporate treasurers need to have operational control and visibility of their liquidity positions.**

Financial institutions that provide treasury solutions to companies of all sizes must keep pace with these changing priorities. They need to deliver new value-added services that meet the increasing expectations of corporate clients. And as corporates continue to expand their reach, competition in the cash management solutions market is intensifying.

As the role of treasurers becomes more strategic, so does cash management. Better, faster insights into cash positions lead to more informed decisions.

Corporates want to automate what can be automated, for example reconciliation, accounting and cash management processes; they also want to own and administer their own accounts without support from the bank. To achieve these goals, self-service and integration are key, using virtual accounts.

Traditionally used to reconcile collections, virtual accounts can also be leveraged across cash management to help treasurers achieve their strategic goals.

# Virtual accounts and their applications

**Overview**

Setting up multiple physical accounts for a single corporate customer causes problems for banks. The need to meet KYC and other compliance requirements means high overheads and costs, as well as complexity. Equally, for corporate customers, many physical accounts can be hard to manage and track – yet corporates need to be able to ringfence cash by specific segments such as regional operations or customer subscriptions.

Virtual accounts, which are used to make and receive payments on behalf of a physical account, provide a smarter transaction banking solution for both banks and corporates.

Traditionally, they have been used to identify receivables more accurately, by allocating payees an individual virtual account number to pay into. This makes straight-through processing possible for receivable notification.

However, virtual accounts can also enable corporates to ringfence cash more effectively for reporting and reconciliation, while holding funds in the same physical account. For banks, they can empower corporate customers to create and manage their own treasury functions, to solve today's cash and liquidity management challenges.

# Corporate treasury-centric

The main advantages to a corporate of utilizing a virtual account management (VAM) structures include:

**Visibility**

Fully understand positions on a real-time basis by connecting multiple bank accounts.

**Account rationalization**

Ease the administrative activities involved in opening multiple accounts.

**Control**

Gain control over internal cash management by using the flexible self-service solution for online creation and maintenance of virtual account structures and authorization processes.

**Segregation**

Identification of different business units, functions, product lines etc.

**Payable initiation**

Corporates can maintain the structure of multiple subsidiaries and manage them centrally by treasury. This allows the treasury to perform payments on behalf of (POBO) the subsidiaries.

**Reconciliation**

Ability to reconcile payments and receivables to and from suppliers and buyers.

**Confidentiality**

Maintenance of confidentiality for business-critical payments such as payroll and taxes.

**Collection initiation**

By streamlining receivables processing, treasuries can manage receivables on behalf of (ROBO) subsidiaries centrally.

**Identity**

Ability to pay, receive and store values.

# Leveraging virtual accounts

**Account rationalization**
For corporates, virtual accounts cut the number of physical accounts required and reduce the admin burden of opening multiple accounts. Self-service capabilities further reduce the burden and can extend to creating and maintaining virtual account structures. This give corporate treasuries more control and flexibility while retaining the visibility, control and reporting of a physical account structure.

*"With corporates looking for better control and visibility over their cash inflow/outflow and liquidity positions, there has been a need to seek smarter transaction banking alternatives like virtual accounts."*

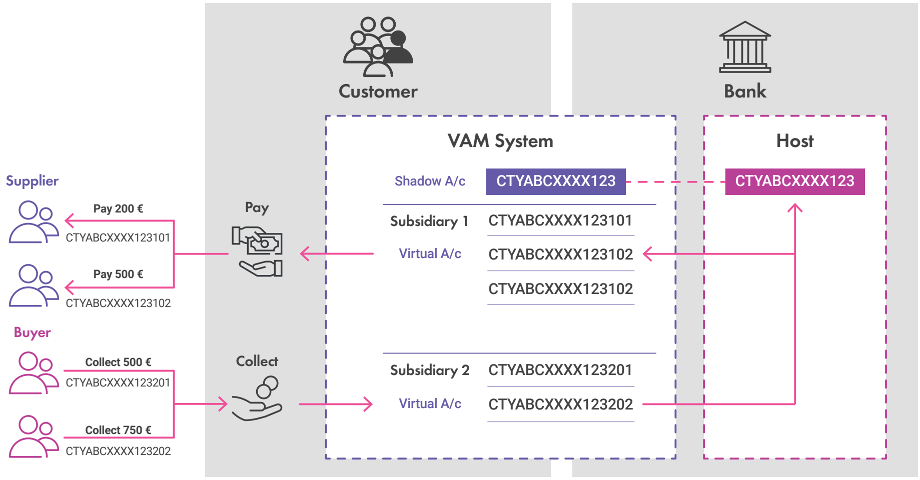
**Payables**
Corporate treasuries can centralize their operations with virtual accounts, maintaining the structure of multiple subsidiaries, managing them centrally and performing payments on behalf of (pobo) subsidiaries.

**Receivables**
Virtual accounts receive payments via a single physical account, streamlining receivables processing and enabling treasuries to manage receivables on behalf of (robo) subsidiaries centrally.

PwC's 2019 Global Benchmarking Survey confirms that receivables on behalf of structures are expanding in use: they are among the most sophisticated cash management tools and 20% of the total respondents have a structure in place. The reasons include SEPA and the use of virtual accounts to facilitate reconciliation

**Liquidity management**
Virtual account management can provide a hybrid of sweeping and notional pooling. All transactions on virtual accounts can be mapped to physical master accounts in real-time, obviating the need for end of day sweeping of funds. With the capability to calculate interest at virtual account level, corporates also see the benefits of notional pooling.

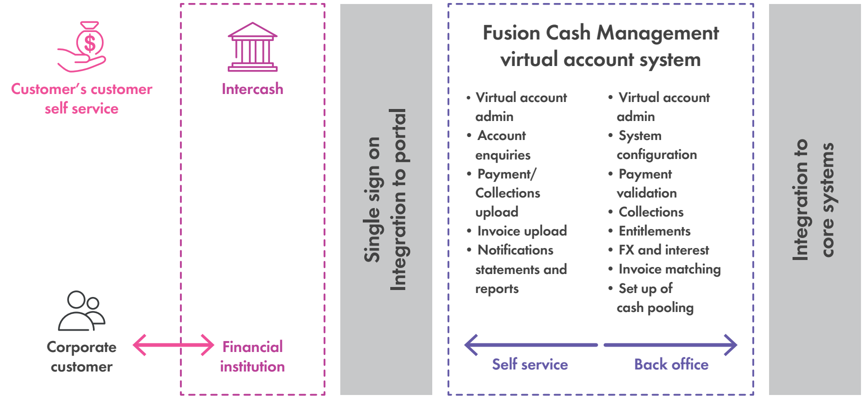
**Client money management**
For corporates' clients, virtual accounts avoid the need to open multiple physical accounts and enable seamless tracking. A virtual account can be assigned to each client with all fund movement tracked based on unique virtual account ID. Funds are pooled in single accounts and tracked at the level of each client. This facilitates quick reconciliation and transaction searches per client and makes interest and charges calculations per client easy. Virtual account management is a convenient way to simultaneously pool and segregate client money.




Virtual account overview

* Source: 2019 from PwC Global Benchmarking Survey, 172 respondents headquartered in 37 countries across 21 industries. The average revenue of a respondent was $10.3 billion

# Fusion Cash Management virtual account solution




Fusion Cash Management displays virtual account

Fusion Cash Management's virtual account solution is a single integrated platform that incorporates accounting, cash management and channel functionality. It front-ends existing core banking architecture to deliver completely new capabilities without changing underlying systems. The solution supports global cash and liquidity management and substantially reduces the cost to service clients by leveraging a self-service model.

The solution uses shadow accounting techniques to synchronize transaction allocation and balance control between header and virtual accounts, as well as between the header accounts and mirrored DDA( Demand Deposit Account) ledger accounts. Debits and credits posted to DDA ledger accounts are reflected both on the mirrored header account, as well as against the relevant virtual account within the hierarchy.

### Virtual account issuance

Virtual accounts can be issued by a client or a bank on behalf of its client, under the following categories: company, subsidiary, aggregator and customer and can be used for payments, receivables or liquidity management.

### Virtual account lookup

An API for external systems resolves real accounts based on virtual accounts. For example, if a transaction with a virtual account hits the core banking system, the core can invoke the API to find the physical account number associated with the virtual account.

The same accounts can then be used for payments and receivables.

### Maintaining balance and ledger

Fusion Cash Management maintains balance and account ledger at the virtual account level, so corporates have a view of their balance at this level.

### Ringfencing of balances

Funds at subsidiary or company level can be ringfenced to ensure they are used by that particular subsidiary and not by another subsidiary or parent company.

### Extending virtual accounts to liquidity

By enabling virtual accounts to be used in the liquidity structure, corporates can achieve real-time sweeping on the real account as well as pooling of funds. They can also track inter-company positions between subsidiaries and the parent company. Interest can be allocated to subsidiaries for notional pooling if required.

### Balance reporting

Fusion Cash Management displays virtual account balances through the existing balance reporting module. This ensures the corporate gets a 360-degree view of all their accounts and balances.

### Virtual account logic

Fusion Cash Management provides extension points to enable banks to define their own virtual account generation logic, ensuring banks adhere to local regulatory requirements.

## About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**



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