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ABSTRACT

In a business anything done financially affects cash eventually. Cash is to a business is what blood is to a living body. A business cannot operate without its life-blood cash, and without cash management, there may remain no cash to operate. Cash movement in a business is two-way traffic. It keeps on moving in and out of business. The inflow and outflow of cash never coincides. Important aspect which is unique to cash management is time dimension associated with the movement of cash. Due to non-synchronicity of cash inflow and outflow, the inflow may be more than the outflow or the outflow may be more than the inflow at a particular point of time. This needs regulation. Left to itself cash flow is apt to follow monsoonic pattern, and showers of cash may be heavy, scanty or just normal. Hence there is a dire need to control its movement through skillful cash management. The primary aim of cash management is to ensure that there should be enough cash availability when the needs arises, not too much, but never too little.

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INTRODUCTION

Cash management is a marketing term for certain services offered primarily to larger business customers. It may be used to describe all bank accounts (such as checking accounts) provided to businesses of a certain size, but it is more often used to describe specific services such as *cash concentration*, *zero balance accounting*, and *automated clearing house* facilities. Sometimes, private bank customers are given cash management services.

Cash Management Services Generally offered

The following is a list of services generally offered by banks and utilised by larger businesses and corporations:

- **Account Reconciliation Services:** Balancing a checkbook can be a difficult process for a very large business, since it issues so many checks it can take a lot of human monitoring to understand which checks have not cleared and therefore what the company's true balance is. To address this, banks have developed a system which allows companies to upload a list of all the checks that they issue on a daily basis, so that at the end of the month the bank statement will show not only which checks have cleared, but also which have not. More recently, banks have used this system to prevent checks from being fraudulently cashed if they are not on the list, a process known as *positive pay*.

- **Advanced Web Services:** Most banks have an Internet-based system which is more advanced than the one available to consumers. This enables managers to create and authorize special internal logon credentials, allowing employees to send wires and access other cash management features normally not found on the consumer web site.
- **Armored Car Services:** Large retailers who collect a great deal of cash may have the bank pick this cash up via an armored car company, instead of asking its employees to deposit the cash.
- **Automated Clearing House:** services are usually offered by the cash management division of a bank. The Automated Clearing House is an electronic system used to transfer funds between banks. Companies use this to pay others, especially employees (this is how direct deposit works). Certain companies also use it to collect funds from customers (this is generally how automatic payment plans work). This system is criticized by some consumer advocacy groups, because under this system banks assume that the company initiating the debit is correct until proven otherwise.
- **Balance Reporting Services:** Corporate clients who actively manage their cash balances usually subscribe to secure web-based reporting of their account and transaction information at their lead bank. These sophisticated compilations of banking activity may include balances in foreign currencies, as well as those at other banks. They include information on cash positions as well as 'float' (e.g., checks in the process of collection). Finally, they offer transaction-specific details on all forms of payment activity, including deposits, checks, wire transfers in and out, ACH (automated clearinghouse debits and credits), investments, etc.

- **Cash Concentration Services:** Large or national chain retailers often are in areas where their primary bank does not have branches. Therefore, they open bank accounts at various local banks in the area. To prevent funds in these accounts from being idle and not earning sufficient interest, many of these companies have an agreement set with their primary bank, whereby their primary bank uses the Automated Clearing House to electronically "pull" the money from these banks into a single interest-bearing bank account.
- **Lockbox services:** Often companies (such as utilities) which receive a large number of payments via checks in the mail have the bank set up a post office box for them, open their mail, and deposit any checks found. This is referred to as a "lockbox" service.
- **Positive Pay:** Positive pay is a service whereby the company electronically shares its check register of all written checks with the bank. The bank therefore will only pay checks listed in that register, with exactly the same specifications as listed in the register (amount, payee, serial number, etc.). This system dramatically reduces check fraud.
- **Sweep Accounts:** are typically offered by the cash management division of a bank. Under this system, excess funds from a company's bank accounts are automatically moved into a money market mutual fund overnight, and then moved back the next morning. This allows them to earn interest overnight. This is the primary use of money market mutual funds.
- **Zero Balance Accounting:** can be thought of as somewhat of a *hack*. Companies with large numbers of stores or locations can very often be confused if all those stores are

depositing into a single bank account. Traditionally, it would be impossible to know which deposits were from which stores without seeking to view images of those deposits. To help correct this problem, banks developed a system where each store is given their own bank account, but all the money deposited into the individual store accounts are automatically moved or swept into the company's main bank account. This allows the company to look at individual statements for each store. U.S. banks are almost all converting their systems so that companies **can** tell which store made a particular deposit, even if these deposits are all deposited into a single account. Therefore, zero balance accounting is being used less frequently.

- **Wire Transfer:** A wire transfer is an electronic transfer of funds. Wire transfers can be done by a simple bank account transfer, or by a transfer of cash at a cash office. Bank wire transfers are often the most expedient method for transferring funds between bank accounts. A bank wire transfer is a message to the receiving bank requesting them to effect payment in accordance with the instructions given. The message also includes settlement instructions. The actual wire transfer itself is virtually instantaneous, requiring no longer for transmission than a telephone call.
- **Controlled Disbursement:** This is another product offered by banks under Cash Management Services. The bank provides a daily report, typically early in the day, that provides the amount of disbursements that will be charged to the customer's account. This early knowledge of daily funds requirement allows the customer to invest any surplus in intraday investment opportunities, typically money market investments. This is

different from delayed disbursements, where payments are issued through a remote branch of a bank and customer is able to delay the payment due to increased float time.

In the past, other services have been offered the usefulness of which has diminished with the rise of the Internet. For example, companies could have daily faxes of their most recent transactions or be sent CD-ROMs of images of their cashed checks.

Cash management aims at evolving strategies for dealing with various facets of cash management. These facets includes the following:

- **Optimum Utilisation of Operating Cash**

Implementation of a sound cash management programme is based on rapid generation, efficient utilisation and effective conversation of its cash resources. Cash flow is a circle. The quantum and speed of the flow can be regulated through prudent financial planning facilitating the running of business with the minimum cash balance. This can be achieved by making a proper analysis of operative cash flow cycle alongwith efficient management of working capital.