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Virtual accounts: a 60-second guide

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One of the topics causing a buzz on the conference floor at this year?s EuroFinance International, held in Geneva at the end of September, was virtual accounts. Yet, like ?supply chain finance?, the nomenclature around virtual accounts is not always clear ? making it more challenging for treasurers to understand the benefits on offer.

As we explain in our latest Journeys to Treasury Report, which was launched at the conference, there are two main types of virtual account solutions (although individual banks have explored the topic in different ways, with varying capabilities and benefits):

1. **Virtual Account.** These are virtual accounts linked to a single physical account into which liquidity from all participants in a treasury centralisation agreement is pooled ? acting like a central ledger.
2. **Virtual IBAN.** These are designed to assist with automatic reconciliation of incoming flows. They involve the use of virtual IBANs that are linked to a physical account or a virtual ledger account. These virtual accounts resemble normal bank accounts, so customers can pay to a ?local? account but remittances are routed to a single bank account, typically by currency.

When deployed in the right way, some of the benefits of virtual accounts include:

- Centralisation of cash in real time (as opposed to using cash pooling)
- Fewer bank accounts, reducing the bank administration burden
- Automatic concentration of liquidity into fewer accounts without the need to set up structures such as cash pool
- Better straight-through reconciliation rates
- Enhanced intercompany reporting
- Faster allocation to customer credit accounts, freeing up credit limits to do more business
- Better intelligence and analytics on customer payments

Centralised treasuries or shared service centres with high collection volumes typically benefit most from virtual accounts, but it is worth talking with your bank about the possible opportunities, regardless of size or scale.

BNP Paribas will also be able to outline implementation and maintenance requirements, including IT needs and regulatory constraints. Compared to the potential benefits of virtual accounts and the speed at which they can be rolled out, however, these considerations are relatively small ? especially for larger or more mature treasury functions.

To learn more about virtual accounts and their place within your treasury function, download your copy of Journeys to Treasury 2018.

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Receivables are what keep a company or institution in business. They are the final step of the Cash Conversion Cycle and close the gap in the Working Capital. In other words, Receivables are really important for a treasurer and yet often seen as a difficult topic to address. Inefficiency and frustration in the collection process often arise from the complexity in understanding the position of the payer.

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