SAP In-House Cash Overview

SAP Conference for Treasury Management
Chicago, IL

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Haresh Chhaya – Deloitte & Touche LLP
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Treasury Leading Practices
Ways to Optimize Treasury Operations

Companies at varying stages of the operations maturity model have the opportunity to lower costs and streamline operations.

In-House Banking (Full Service)
- Separate legal entity is established to serve as the internal finance company in a tax-efficient jurisdiction
- All intercompany transactions run through this entity thereby facilitating & automating netting
- Allows for “payments-on-behalf” and “collections-on-behalf” models

Centralized Treasury Operations Processing
- Cash management, FX execution, and payments processing are usually the first processes to be centralized
- Treasury could be part of broader finance shared service centers
- Treasury may perform functions in the name of subsidiaries

Global Cash Pooling
- North American & European markets lend themselves to pooling, Asia Pacific is opening up in many countries, Latin America remains a difficult region
- Proliferation of bank accounts and banking partners require tools to gain cash visibility

Tactical Cash Operations
- Execution-focused, sometimes dispersed throughout multi-national companies
- Addressing day-to-day tactical issues related to wires, payments, receipts, and bank accounts
- Processes are usually highly manual and repetitive
In-House Bank: The Treasury Center of Excellence

Many companies are looking to consolidate cash and centralize cash and liquidity management globally through an in-house bank to gain greater visibility to cash and more cost-efficient execution.

The goal of the in-house bank is to consolidate and minimize external banking transactions and utilize internal funding where possible. At its most evolved, legal entities will utilize shadow or “internal accounts” rather than external accounts for transaction purposes.

Some internal drivers for creating an IHB:

- Visibility and control of cash
- Improve working capital
- Increased focus on centralizing Treasury functions into ‘centers of excellence’
- Reduced banking fees
- Reduced FX execution spreads and settlement volumes by net-settling
- Straight through processing efficiencies

Tax reduction can be achieved from building tax planning into offshore in-house banking and cash pooling arrangements.
# Quantifiable Benefits of an In-House Bank

<table>
<thead>
<tr>
<th>Objective</th>
<th>How an IHB Can Help</th>
<th>Measures of Success</th>
</tr>
</thead>
</table>
| Improve Visibility of Global Cash             | ▪ Regional and global cash pooling structures can optimize and centralize cash management on a consolidated level  
▪ Greater concentration of cash through cash pooling structures makes access easier and facilitates quicker investment and funding decisions                                                                                           | ▪ Increase cycle time for finalizing cash positions globally each day  
▪ Centralize more accounts in cash pooling structures                                                                                                              |
| Efficient Borrowing and Investing of Cash    | ▪ Intercompany funding can eliminate reliance on external funding sources. Reduces short-term borrowings  
▪ Cash pooling can produce better investment returns                                                                                                                                                                                                                                             | ▪ Reduce interest expense on borrowings  
▪ Enhance free cash yields                                                                                                                                                                                                           |
| Lower Bank Charges                            | ▪ Payments factory consolidates and nets payments before transmission to the bank  
▪ Net all intercompany payments instead of settling externally  
▪ Bank rationalization opportunities are available and can streamline bank account structure  
▪ Opportunities to centralize bank relationships                                                                                                                                                                                       | ▪ Reduce number of external funds transfers  
▪ Reduce cross-border intercompany payments and associated fees  
▪ Reduce bank account admin fees                                                                                                                                                                                                     |
| Reduce Overhead                               | ▪ Leverage use of a shared services center to support standardized IHB processes                                                                                                                                                                                                                                                                   | ▪ Smaller support organization (reduced FTE’s)                                                                 |
| Maximize Working Capital                      | ▪ Control over timing of payment can reduce daily cash volatility  
▪ Improve cash forecasting  
▪ A collections factory can reduce daily cash volatility by ensuring faster collection of payments                                                                                                                                                                                                                     | ▪ Reduce idle cash balances  
▪ Reduce days-sales outstanding (DSO)                                                                                                                                                                                                       |
| Centralize FX Management                      | ▪ Consolidate and net payments internally before going externally for FX conversion needs  
▪ Implement a center of excellence whereby all FX conversions required to process payments and hedge execution requests can be centralized. Trading efficiencies can be realized  
▪ Execute aggregated orders externally  
▪ Net-settle all FX trades using the payments factory                                                                                                                                                                                      | ▪ Reduce number of external FX transactions  
▪ Savings from the reduction of FX spreads on larger orders  
▪ Reduce settlement fees and transactions                                                                                                                                                                                                  |
Quantifiable Benefits of an In-House Bank (Continued)

<table>
<thead>
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<th>Objective</th>
<th>How an IHB Can Help</th>
<th>Measures of Success</th>
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</thead>
</table>
| Standardize Bank Communications   | ▪ Eliminate costly interfaces with proprietary bank platforms  
▪ Creating one central point of processing. All payments processing and reconciliations are performed by the IHB, thus, streamlining the bank communication channels  
▪ Become bank agnostic. No longer need to rely on bank IT support.                                                                                             | ▪ Reduced bank transactional fees for processing bank statements  
▪ Reduced fees for payment files processing  
▪ Reduced IT maintenance costs of supporting bank connectivity platforms                                                                                        |
| Straight-through-Processing      | ▪ Enhanced availability of information within ERP and treasury management systems  
▪ Implementation of common core data definitions that supports enterprise wide reporting purposes  
▪ Reduced number of systems and tools required to support treasury and finance operations  
▪ Automation of re-designed and streamlined process through support of new system  
▪ Minimize required system maintenance through internal system integration and simplification                                                                  | ▪ Reduced replication of same data  
▪ Required time to access data  
▪ Fewer manual touch points  
▪ Reduced number of systems                                                                                                                                         |
| Centralize Bank Relationship Management | ▪ Streamline bank relationships required to support global and regional cash pooling structures                                                                                                                     | ▪ Reduction in number of physical bank accounts                                                                                      |
| Improve Controls                 | ▪ Reduced financial reporting risk evidenced by reduction of audit adjustments and misstatements  
▪ Replacement of manual controls by introduction of system controls                                                                                               | ▪ Fewer adjustments  
▪ SOX 404 compliance                                                                                                                                               |
| Tax Perspective                  | ▪ Facilitates review of group loans to insure after tax costs are optimized  
▪ Identifies cash balances available for structural offshore use or repatriation  
▪ Results in global financial risk review and updated pricing and documentation  
▪ Coordinates Operational Supply Chain and Financial Supply Chain goals                                                                                               | ▪ Lower foreign tax costs  
▪ Lower cost cash redeployment  
▪ Enhanced FTC utilization  
▪ Minimized tax audit exposure  
▪ Minimize excess cash build up                                                                                                                                        |
In-House Bank Components

At its most evolved form, in-house bank can also collect and pay on behalf of group subsidiaries and also be the conduit for centralized FX risk management and improved hedging.

**Payments Factory**
- Centralized multiple-currency payments processing and execution
- Covers both internal and external payments
- Consolidated payments to global vendors
- Internal netting of intercompany transactions prior to payments execution
- Single bank payments file
- Straight-through-processing from payment initiation to accounting and bank reconciliation

**Collections Factory**
- Centralized receiving and cash application
- Receive-on-behalf-of model
- Covers both internal and external receipts
- When implemented with a payments factory, possibility to net out payments / receipts by vendor / customer
- Maintain in-house cash accounts to track receipts by entity
- Straight-through-processing from invoicing to cash receipt and remittance to subsidiary
SAP In-House Cash (IHC) Overview
**Treasury and Risk Management Overview**

SAP Financial Supply Chain Management (FIN-FSCM) optimizes the financial and information flows within a company and between business partners. SAP FIN-FSCM contains the following components:

<table>
<thead>
<tr>
<th>Optimize Finance with Treasury Applications from SAP</th>
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</thead>
<tbody>
<tr>
<td>Manage Financial Risks</td>
</tr>
<tr>
<td>Manage Financial Instruments</td>
</tr>
<tr>
<td>Manage Cash and Liquidity</td>
</tr>
</tbody>
</table>

**SAP ERP**

<table>
<thead>
<tr>
<th>Finance Excellence</th>
<th>Financial Core</th>
<th>SAP NetWeaver</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Ledger</td>
<td>Treasury</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FSCM</td>
<td>Treasury</td>
</tr>
<tr>
<td></td>
<td>Real Estate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RHM</td>
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<td></td>
<td>MM</td>
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<tr>
<td></td>
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<td>DEB</td>
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<td></td>
<td>SEC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>COM</td>
<td></td>
</tr>
</tbody>
</table>

**SAP Capability for In-house Banking**

SAP treasury offers tight integration with market data, banks, trading platforms and real-time integration with financial accounting. Based on Client’s specific needs, some of the above functionalities can be leveraged.
Many companies are looking to consolidate cash, centralize cash and provide better liquidity management globally through an in-house bank. This allows companies to gain greater visibility to cash and more cost-efficient execution. SAP-In-House Cash (IHC) Center can be configured to offer system capabilities to accomplish these objectives.

- Organizational unit usually associated to regional or global corporate office of the company
- One or more subsidiary current accounts within the In-House Cash Center
- Can calculate interest, charges, grant overdrafts and generate bank statements for the participating subsidiaries
- In simple terms, it acts as an internal bank for an organization
Example of Internal Payment Transactions Structure

Typically used for:

- Substitution of internal payments for physical payments within the group
- Efficiency and cost reduction through internal netting of inter-company activity
- Keep liquid funds within the group and avoid losses due to value-dating payments
Typically used for:

- Transferring money in several currencies to suppliers distributed over the globe
- Reduce the number of external bank accounts (local and abroad) and combine payments from subsidiaries through the In-house Center
- Reduction in currency translation charges, international payments and optimize foreign currency positions
Typically used for:
- Maintaining cash pools in the In-house Bank for the most frequently used currencies for the group
- Optimization of liquidity planning and opportunity for generating higher investment returns
- Processing cash-sweeps and interest payments using IHC
- Reduction in the number of external bank accounts (local and abroad)

Example of Central Incoming Payments Structure

Before SAP-IHC

After SAP-IHC
Additional Functionality Supported by SAP-IHC

- Cross-Bank-Area Payments
- Local Payments with In-House Cash
- Provisional Payments in In-house Cash to manage FX Gain/Losses
- Use of Spread in In-house Cash to reimburse IHC for FX Payments
- Internal Cash Concentration with thresholds for multiple accounts held by subsidiaries
- Interest calculation for the participating subsidiaries
- Integration with SAP Cash Management
- Integration with SAP Transaction Manager
- Integration with SAP Bank Communication Management
- Integration with SAP General Ledger
Example of Internal Payments Process in SAP
The IC netting process is initiated from the paying company which updates both sides of the current accounts in the IHC.
Open AP and AR

- IC Vendor invoice or AP document triggers the IC process in SAP-IHC
- IC vendors master data is set up with the trading partner for eliminations during consolidation

- IC Customer invoice or AR document is cleared when the internal bank statement generated by IHC is posted
- IC customer master data is set up with the trading partner for eliminations during consolidation
Payment Run

- Payment Method is set up to generate the Payment Order IDOC
- No external output is generated in this process

Payment Run Parameters

- Payment runs are executed for all participating companies
- Payments automatically generate an IDOC into the In-house Cash application of SAP
Payment Orders in IHC

- SAP generates Payment Order IDOC automatically
- The Payment Order triggers a Credit Transfer from Current Account of Payer to the Payee
- Batch jobs can be set up to post the Payment Orders

AP Payment Run Parameters

<table>
<thead>
<tr>
<th>Bank Area</th>
<th>Corp HIC attached to 1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Number</td>
<td>1020000000000</td>
</tr>
<tr>
<td>Account Holder Subsidiary CC 1010 / Irving 75063</td>
<td></td>
</tr>
</tbody>
</table>

IHC Bank Account of the Debtor (Payer)

<table>
<thead>
<tr>
<th>Bank Accounts Display: Basic Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover List</td>
</tr>
<tr>
<td>Bank Area</td>
</tr>
<tr>
<td>Account Number</td>
</tr>
<tr>
<td>Account Holder Subsidiary CC 1010 / Irving 75063</td>
</tr>
<tr>
<td>Account Balance on 09/26/2014</td>
</tr>
<tr>
<td>Posting Date</td>
</tr>
</tbody>
</table>

Document Overview 09/26/2014 - 09/26/2014

- Item number 965 1 09/26/2014 10/17/2014 Bank transfer USD 2,005.00
- Item number 964 1 09/26/2014 10/17/2014 Credit Transfer USD 2,005.00

Key reference fields

IHC Bank Account of the Creditor (Payee)

<table>
<thead>
<tr>
<th>Bank Accounts Display: Basic Data</th>
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<tbody>
<tr>
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<td>Account Balance on 09/26/2014</td>
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<td>Posting Date</td>
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Document Overview 09/30/2014 - 09/26/2014

- Item number 964 1 09/26/2014 10/17/2014 Credit Transfer USD 2,005.00
- Item number 964 1 09/26/2014 10/17/2014 Credit Transfer USD 2,005.00

Key reference fields
- Periodic Bank Statements can be generated for each subsidiary holding account in the IHC
- The postings created by the bank statements in the subsidiaries automatically clear the open items

### Internal Bank Statement

**Create One Single Bank Statement (On Request)**

<table>
<thead>
<tr>
<th>Seq. No.</th>
<th>Posting Date</th>
<th>Value Date</th>
<th>Amount (AC)</th>
<th>Currency</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>09/25/2014</td>
<td>09/25/2014</td>
<td>6,500.00</td>
<td>USD</td>
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<tr>
<td></td>
<td>Cash Debit</td>
<td>100USDCHF/100 USDCHF</td>
<td>6,500.00</td>
<td>USD</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2014/00000189</td>
<td>6,500.00</td>
<td>USD</td>
</tr>
</tbody>
</table>

**Key reference fields**

End Bal.: 9,675.00
Date / Time: 10/17/2014 17:18:56
Why Deloitte
Deloitte’s Leadership and Eminence in Treasury

Dedicated Treasury & Commodity Risk Management Practice

- Deloitte has the largest treasury and commodity trading & risk management (TCRM) consulting practice in the United States
- Our professionals all have significant industry or vendor experience having joined us from treasury departments of companies like GE, IBM, Merck, Apple, Thomson-Reuters, Citibank, Bank of America, AT&T, Pepsi-Co, and Clorox as well as vendors like Wall Street Systems and SunGard
- We have served both the global and regional treasury requirements of Fortune 1000 companies in various industries such as goods manufacturing, financial services, pharmaceuticals, petrochemical, private equity
- Deloitte is the only Big Four firm to have a technology practice, as the remainder sold these. With the scale of our practice comes the methodologies, discipline and insight that boutique players and other firms without this practice do not have
- We have strong relationships with all the vendors. We are the preferred implementation partner for SAP, Wall Street Systems describes our working relations as refreshing and SunGard have been impressed by how we manage overall treasury IT programs and team with their staff
- We work in a collaborative way with our clients. We recognize that treasury engagements require a strong understanding of the interdependencies between treasury, accounting, finance, tax, IT and legal and our team has direct experience in successfully working through these challenges

Our Global Scale

- Over 193,000 people in 150 countries

We provide a broad range of services:

- Global Cash and Liquidity Management: assess, design and implement cash and liquidity management strategies
- Treasury & Commodity Technology: IT strategy, architecture design, vendor assessment/selections and implementation of integrated technology solutions
- Commodity & Financial Risk Management: assess, redesign and implement integrated commodity & financial risk management strategies
- Treasury & Commodity M&A Services: help you with integration, divestment and carve out of a new independent treasury and commodity risk management capabilities
Our Key Differentiators for SAP Treasury Implementations

We believe that Deloitte is well positioned to help companies in delivering the SAP Treasury IHC implementation projects. The key differentiators that set us apart from competition are:

- Our team has **experience in working with treasury departments of corporations of varying sizes, revenue and global landscape.** Our professionals understand the business user perspective as well technical aspects of treasury in today’s complex global environments.

- In addition to deep understanding of treasury processes and SAP system, our professionals have **extensive experience in various aspects of Treasury system integration** including interfaces, bank connectivity and custom solutions.

- We bring **deep knowledge of how treasury and In-house Banking functions integrate** with Order-to-Cash (OTC), Procure-to-Pay (PTP) and Record to Report (RTR) processes. We believe that Treasury organizations need this experience to successfully complete their SAP IHC projects.

- **We bring subject matter specialists** across key process areas such as Tax, Hedge accounting, In-house banking, Commodity and Risk Management.

- **Our global treasury practice allows us to easily engage Global Treasury team** members as appropriate to discuss localization requirements and designs.

- Through our past projects we have developed a set of **SAP tools and programs** that can be easily leveraged during a project covering a functional demo system for proof of concept, process designs, testing scenarios, training materials, security roles, project plan, cutover plan and custom solutions for gaps.

- **We offer flexibility** in adjusting and making course corrections in resourcing based on needs within each phase.

- **We have proven training and user guides** for a large number of treasury processes that can be leveraged and tailored to specific needs of a project.

- Our team includes a **mature India offshore delivery component**, unmatched by our competitors, allowing more productive hours each work day and helping to reduce costs.
Deloitte’s Custom Tools and Accelerators

Deloitte has fully built SAP Treasury demo system (covering, In-house cash, transaction manager, cash management, risk management and commodity risk) available for requirements and design validations/decision making, proof of concept and user enablement.

In-house Cash specific Add-ons
1. IHC document reversal toolset
2. Trading partner derivations to support Inter-company eliminations
3. Current account interest calculation based on average daily balance
4. IHC vs. GL reconciliation
5. Payment status tracker from vendor invoice processing to file output to banks
6. Excel loader for current account updates for non-sap IHB activities
7. Transaction manager integration with IHC

Other Tools and Accelerators
1. Automated update of available balance’ in cash position report
2. SAP BCM payment status alert monitor customized file loader
3. Solution for integration to FX ALL, 360T applications
4. Solution for integration to Misys
5. Memo loader tool for cash flow forecasting
6. Customized and detailed project plan for SAP Treasury projects
7. Pre-built security roles and mappings to SAP transaction codes
8. Re-usable test scenarios, training materials and data conversion templates
9. Bank payment files (defined using payment medium workbench) for XML, SEPA, EDI820 for most major banks
10. BPC based starter kit for liquidity planning (long term forecasting) tool developed jointly by SAP and Deloitte can also be leveraged for demos and initial design validation sessions if required
Contacts
## Contacts

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kesavan Thuppil</td>
<td>Director</td>
<td><a href="mailto:kthuppi@Deloitte.com">kthuppi@Deloitte.com</a></td>
<td>+1 609 806 4502</td>
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<td>Haresh Chhaya</td>
<td>Senior Manager</td>
<td><a href="mailto:hchhaya@deloitte.com">hchhaya@deloitte.com</a></td>
<td>+1 609 619 1860</td>
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