

IN-HOUSE BANKING

So You're Thinking of Setting up an In-House Bank?



Catherine Porter
Head of Treasury,
Arup



Joost Bergen
Founder,
Cash Dynamics



Tom Alford
Deputy Editor,
TMI

Treasurers pondering the creation of an in-house bank may feel discouraged by the time and resources required to set one up. Catherine Porter, Head of Treasury, Arup, and Joost Bergen, Founder, Cash Dynamics, offer a 'warts-and-all' review of the challenges and benefits that lie ahead.

An in-house bank (IHB) is a central treasury framework that formalises internal lending, FX, and cash concentration processes between treasury and most or all operating entities within a group of companies, which is usually a multinational. Rather than relying on external banks for every transaction, the treasury function operates as an internal bank, providing funding, managing cash, and calculating and recording interest transactions.

In practice, an IHB creates contractual relationships between treasury and the companies it serves, much the same as a traditional bank would with its core banking ledger. Despite its bank-like status, Bergen explains that, typically, IHBs are not established as profit centres, but may operate as 'cost-plus' service units where treasury charges the company's internal departments for those services provided – similarly to the way a bank treasury would do within a bank.

To achieve its goals, the IHB is required to centralise liquidity (either in real-time or via daily sweeps). In doing so, it becomes the day-to-day interface between those business units and the company's external banks. While the idea may appeal to many companies, Bergen advises that implementation feasibility of an IHB varies by jurisdiction, with European and US structures generally easier to establish than in most emerging markets.

At a deeper practical level, once legal and organisational frameworks have been established, Porter notes that the IHB structure is usually supported with technology such as a TMS or ERP. Operating companies then deposit and borrow cash through the IHB and receive or pay interest on those deposits accordingly. As with a regular bank, every transaction is tracked per entity and currency, preserving local currency handling where required.

"In more complex currency-controlled jurisdictions such as China, South Africa or India, cross-border operations may be limited, but a domestic IHB structure is still feasible and valuable," explains Porter. "Data can be centralised even if

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physical cash can't be concentrated on a daily basis." Bergen adds that even in a decentralised domestic-only IHB model, a company can still standardise its processes and centralise data reporting, "if not the actual cash". This means that efficiency and visibility are achievable even where cross-border cash movements may require approvals or face restrictions.

Considering the benefits, an IHB when implemented properly enables easily measurable daily liquidity across all bank accounts with all the banks. It can also provide real-time transparency, notes Porter. "A few firms still lack this daily insight, possibly even relying instead on monthly reports from accounting. But they are missing out on actionable daily cash data."

Indeed, if an IHB is able to facilitate better use of its working capital, she adds, it is ultimately supporting business growth. "It's inefficient to have idle balances scattered across accounts where there is no restriction to centralise

cash, and at the same time be pulling centrally on an RCF or other borrowing."

Arguably, a TMS armed with bank connectivity across all or most of its bank accounts (open-banking enabled or otherwise) could also provide some cash management efficiencies. But for Porter there is a difference. "That's just visibility, not control. The IHB records the physical concentration of cash under treasury ownership and management against intercompany payments 'due-to' and 'due-from'."

Inside an IHB

At its core, the IHB is there to support pulling excess cash from operating companies into treasury-centre owned accounts. This also makes it possible to redistribute that cash as needed, usually by currency, explains Porter. "Operating companies therefore will no longer hold much cash directly on their own balance sheets and in their own bank accounts. Instead, intercompany positions are tracked in the IHBs recorded in the TMS."

Because treasury is now centrally managing all working capital, those companies will no longer manage cash independently. However, she adds, they will typically have access to 'minor' local accounts, for payroll or taxes for example. "The IHB effectively becomes the company's daily liquidity engine and owner for all operational cash."

Looking from a consolidated balance sheet perspective, Bergen comments that because all company cash is "vacuumed into treasury", it enables "more flexible redistribution, and reduces cash peaks across business units".

"Local units don't need to plan for large outflows," adds Porter. "They rely on treasury's planning, and that reduces operational friction. It's now down to treasury to ensure enough funding is available to accommodate peak days without disrupting operations. "Think of it as running a logistics operation for cash," Bergen notes. "It's about treasury delivering just-in-time liquidity."

The IHB also means that FX risk can be more advantageously managed at group level. "Centralising currency positions enables internal netting opportunities, and that means external hedging is needed only when absolutely necessary and only for the netted positions. It's a level of control that should strengthen policy frameworks for FX management."

Beauty in achievability

"At its most basic, operationally, the IHB is a machine," comments Bergen. "Customer payments hit operating company accounts and are swept to treasury daily. Payments by business units trigger automated funding. It's mimicking a single global account, but the IHB gives you

BOX 1 | IHB: DO WE REALLY NEED ONE?

The basic value of an IHB is quite simply stated: here are some of the key benefits:

Operational efficiency

- Automate internal funding and investment to achieve liquidity efficiency.
- Reduce manual intervention by standardising processes across entities.

Centralised visibility and control

- Access real-time liquidity data across all accounts with all banks.
- Eliminate reliance on lagging, accounting-based month-end reports.

Enhanced liquidity management

- Reduce idle cash across disparate accounts.
- Improve use of working capital and reduce drawn RCFs.

Strengthens treasury's role

- Establish treasury as the owner of corporate liquidity – cash as a corporate asset.
- Shift the responsibility for interest income/expense away from operating units.

Improved internal collaboration

- Align with tax, legal, accounting, and FP&A using a shared financial infrastructure.
- Simplify intercompany transactions such as dividends, loans, and funding.

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control like one big account [relocated in the internal IHB ledger], while still enabling diversification across real banks and currencies.”

Within that core purpose, each day, treasury must be able to review account balances, forecasts, and plan cash movements accordingly, explains Porter. While cash planning in the short term (up to say two weeks out) is relatively easy in a TMS, she adds that long-term forecasts will typically come from the FP&A department, but treasury still ensures adequate facilities and buffers are in place. “The three-to-12-month range is the hardest as you’ll still need input from other business units, and perhaps separate tools to achieve usable accuracy.”

Clear reporting is another essential function. “Businesses must see their in-house accounts to track balances and movements; it helps flag issues such as potential liquidity stress or where a business unit has stopped collecting from customers, is paying its accounts payable out of lock-step with its cash flows, or is making a loss,” Porter explains. Of course, treasury will oversee this process, but others, such as separate working capital or FP&A teams, may also be monitoring IHB accounts. The beauty of the IHB is that this is entirely achievable.

In search of a shared approach

The day-to-day operational benefits of the IHB are clear, but there are more advantages that can be appreciated, says Porter. Because the IHB clarifies interest flows (to and from IHB participants), it also supports audit readiness. The production of rich data and documentation also simplifies transfer pricing and aids tax compliance. There will also be a more cross-functional alignment between treasury, tax, legal, accounting and so on simply because all now will be operating with a shared structure and focus.

While treasury will be the major direct beneficiary of IHB efficiencies, Porter is adamant that other functions will also see a pick-up. From tax and audit to legal and compliance, an IHB makes processes predictable, she explains. “Everyone learns how it operates, and it becomes

a trusted infrastructure for significant transactions such as intercompany loans, acquisitions, and dividend payments. Without it though, those other functions will always be scheduling meetings just to figure out how to move money.”

Indeed, comments Bergen, “because everyone can now understand the rules and account naming conventions, it standardises how acquisitions, loans, or dividends are processed, for example. Without that shared approach, teams are constantly, and somewhat frustratingly, reinventing these processes.”

Every silver lining...

While the benefits are clear, there will be downsides to an IHB model. However, Porter asserts, these relate in the main to the initial phase of a project. “Set-up requires strong controls, and monitoring usage limits may be necessary,” she warns. “For instance, you must define intraday limits and payment governance to ensure local units don’t misuse central liquidity.”

It must be acknowledged, too, that some companies are culturally or structurally unsuited to IHB adoption, notes Bergen. “Private equity firms, highly decentralised or highly acquisitive businesses might prioritise local P&L and cash responsibility, making centralisation difficult or impossible,” he suggests. What’s more, if any organisation can’t agree on centralising ownership of cash and liquidity policies, he argues that IHB won’t work. “Strong governance and alignment must come first.”

As a further caveat, Porter cautions that divesting companies from an established IHB “can be painful”. If a business has no independent treasury structure, she explains that the acquirer must build one from scratch. While greenfield treasury operations are not uncommon – TMI has many case studies where departments have been built from scratch – she is clear that in this context an IHB “can complicate divestment.”

That said, with clear governance and alignment, most treasury teams can implement at least a partial IHB model – especially in regions with a more liberal regulatory outlook, such as the UK, EU, or US.

Getting the green light

To kick off an IHB project, Bergen advises that in every case the board must first agree on treasury owning – and being measured on – the organisation’s cash, so cash becomes a corporate asset and managed by the IHB. “Only then can treasury consider implementing a central structure,” he affirms.

Porter concurs, noting that treasury may face some resistance, largely because many in finance don’t understand real-time cash dynamics or the external banking



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Head of Treasury, Arup

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environment. "You'll need to build a persuasive internal campaign to get an IHB off the ground," she warns.

To ensure progress, treasury teams should take steps to prepare a business case that clearly demonstrates benefits such as reduced interest costs, better cash utilisation, and FX efficiencies. "You'll need to educate key stakeholders too," advises Porter. "Treasury will have to clarify roles, ownership of cash, and changes to governance under IHB conditions." Ultimately, the decisive test will be in securing senior management buy-in, including the CFO and board. Even then, formal approval to proceed will require intercompany agreements, policies, and authorisation matrices to be in place.

It's a demanding process that requires not only a highly compelling case to be made to the board but also functions such as accounts must be brought on board as early as possible. "Many accountants think in terms of ledgers,

not liquidity or cash on bank accounts. Treasury needs to educate them on the importance of cash – and cash control – to the business, even more so where there are multiple flows in varying currencies," Porter explains.

Practical first steps

As might be expected, the adoption of IHB requires some core technologies to be in place. A robust TMS is essential, stresses Porter. This will be necessary for handling automated bank feeds, and interest and FX rate calculations. "If you already have a TMS, expand its use. Underutilisation of these systems is common; many companies implement a TMS for long-term debt management but ignore short-term cash. This is where IHBs create operational impact and value."

Connectivity with banks and consistent, secure data flow are essential, especially with multiple jurisdiction involvement in the IHB, states Bergen. "Options include host-to-host, Swift, APIs or bank portals. But be aware that APIs can be expensive and hard to maintain so really do your research to make sure you are choosing the most scalable, reliable method for your set-up."

Bergen also encourages companies considering an IHB to determine whether there is a need for a separate treasury entity to run it, and if so, where it should be based, bearing in mind certain tax and jurisdictional benefits that may apply.

The IHB bottom line

A treasurer considering an IHB may not only be standing at the gateway to a broader rethink of how treasury works but also its strategic impact on the business. For Porter, the need to be active in this respect is a crucial component of modern treasury. "Whatever your current model, you can't stand still. An IHB is not a luxury – it's a strategic capability to increase liquidity efficiency."

Treasurers have known for some while that manual treasury processes can create risk; could now be the right time to explore how the IHB can bring order, control, efficiency, and optimisation?

BOX 2 | BUILD-A-BANK: THE ABC OF IHB

Data

- Secure a complete picture of bank accounts and balances across all entities.
- Analyse cash dynamics, usage trends, idle balances, and transfer behaviours.

Infrastructure

- Confirm TMS IHB capabilities or plan a phased upgrade.
- Review existing banking relationships and assess connectivity options.

Legal and entity design

- Set up or identify the treasury entity that will act as the IHB.
- Define its scope: cross-border versus domestic, FX coverage, intercompany policies.

Policy and governance

- Determine accountability for financial cost and profit: business is responsible for EBITDA but not for interest.
- Establish guidelines for cash pooling, internal lending, FX, and account ownership.
- Set rules for access, limits, and payment approvals. Set monitoring protocols.

Communicate

- Develop internal training and guides for business units.
- Build trust by showing how treasury adds value, without disrupting operations.



Joost Bergen
Founder,
Cash Dynamics