



**Rocky
Mountain
Bank**

a division of HTLF Bank

FINANCIAL FEED

2024.Q1

Fraud Trends and Best Practices

Tools and Resources to Help Fight Fraud

PAGE 14

FINANCIAL FEED^{2024.Q1}

As the Fed continues to wrestle with inflation and the labor war carries on, businesses across the U.S. displayed a great deal of resilience in 2023. Overcoming various post-Covid challenges, businesses are seeking informed guidance for 2024. As your reliable banking partner, we look forward to providing counsel and helping decision-makers manage their businesses with confidence. At HTLF, we've created the Financial Feed to provide our market with valuable insights on the future of finance. We hope these findings help you conquer potential challenges and capitalize on opportunities.

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President & CEO, Tod Petersen, addresses Montana's market advantages and inflation challenges, how to respond and what we're doing to help.

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Known as the Beige Book, this report is published by the Federal Reserve and documents national economic conditions.

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Optimize capital, streamline cash management, fight fraud with Positive Pay and more – all with one comprehensive solution.



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HTLF Bank is MEMBER FDIC and  EQUAL HOUSING LENDER

A Message from Tod Petersen

Banking partners you can count on to help you achieve growth goals

Sitting in the lap of four mountain ranges, Bozeman, Montana, has great lifestyle appeal. Both tourists and new residents, with primary and secondary homes in the area, help boost the local economy, said Tod Petersen, President and CEO of Rocky Mountain Bank, a division of HTLF Bank.

“Bozeman is really experiencing growth and even people from across the state can’t believe it’s growth,” said Petersen, a Montana-native, of people relocated from other areas of the country.

Interest in Bozeman, population 60,000, and other Montana cities has made the state second in population growth in the U.S. from 2020 to 2022.

Rocky Mountain Bank, a division of HTLF Bank, has nine locations across the state. Petersen manages the operations from Bozeman.

MARKET ADVANTAGES

Along with new homes and sales of existing homes, many new residents bring investment capital or open new businesses in the area.

“With unemployment low, staffing seems to be a challenge for most local businesses. Wage inflation adds expenses to organizations, reducing their profitability.”

Tod Petersen
President & CEO



Montana State University with about 16,000 students is the city’s largest employer, with about 5,000 people working there.

Although agriculture has long been an economic driver in the state, the U.S. Department of Commerce named Montana a regional Technology and Innovation Hub.

High tech and manufacturing are growing throughout the state and especially in the Bozeman area, offering new opportunities for individuals and businesses, Petersen said.

MARKET CHALLENGES

The area’s economy could be vulnerable if travel declines or public budgets are reduced, Petersen said, which could happen if the economy slides into a recession. That could also impact homebuilding and real estate, creating a downward turn in the housing market, where supply could exceed demand.

Other concerns are inflation and rising interest rates that have occurred throughout 2023, he said. Both make it more expensive to be in business.

Unemployment is low in Bozeman, the rate is about 2.7 percent, Petersen said.

The low unemployment rates also mean Bozeman, like other parts of the country, have trouble finding qualified workers for vacant jobs.

“With unemployment low, staffing seems to be a challenge for most local businesses. Wage inflation adds expenses to organizations, reducing their profitability,” he said.

“They need to focus now more than ever on risk management, largely due to growing incidents and concerns with fraud. They need to stay vigilant and proactively focus on prevention measures to avoid fraud.”

- Tod Petersen, President & CEO

WHAT YOU CAN DO

Clients need to work on rigorous planning and budgeting, including a SWOT (strengths, weaknesses, opportunities and threats) analysis, Petersen recommended.

Clients also need to analyze their cash conversion cycle — speeding up the receipt of cash and slowing down payments, he said.

“They need to focus now more than ever on risk management, largely due to growing incidents and concerns with fraud. They need to stay vigilant and proactively focus on prevention measures to avoid fraud,” Petersen said.

Sound capital management also includes reducing their debt to avoid higher interest costs.

Other strategies include investing in technology to maintain efficiencies for their organization and to access wider markets nationally. Also beefing up their efforts to attract and retain talent.

WHAT WE CAN DO TO HELP

“We believe maintaining communication with your bank and your bank relationship team is a first line of defense,” Petersen said of how the bank wants to work with its customers.

The bank has services like the Commercial Card, Positive Pay and other treasury management solutions to help maximize a client’s cash cycle and protect them from fraud.

Positive Pay allows customers to review account numbers, check amounts and payee names before the bank pays the check. The Commercial Cards adds safety if customers carefully monitor charges and report fraud within the required window of time.

“You want to avoid paper checks. Even a large commercial customer can pay with a card. We offer them the opportunity to pay their vendors with cards, ACH or wires,” Petersen said. ▲

“We believe maintaining communication with your bank and your bank relationship team is a first line of defense.”

- Tod Petersen, President & CEO

National Economic Activity

From the Federal Reserve Bank's Beige Book

Commonly known as the Beige Book, this report is published eight times per year. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts and other sources. The Beige Book summarizes this information by District and sector. An overall summary of the twelve district reports is prepared by a designated Federal Reserve Bank on a rotating basis.

ECONOMIC ACTIVITY WITHIN THE Federal Reserve Districts



On balance, economic activity slowed since October, with four Districts reporting modest growth, two indicating conditions were flat to slightly down, and six noting slight declines in activity.

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OVERALL ECONOMIC ACTIVITY

Retail sales, including autos, remained mixed; sales of discretionary items and durable goods, like furniture and appliances, declined, on average, as consumers showed more price sensitivity. Travel and tourism activity was generally healthy. Demand for transportation services was sluggish. Manufacturing activity was mixed, and manufacturers' outlooks weakened. Demand for business loans decreased slightly, particularly real estate loans. Consumer credit remained fairly healthy, but some banks noted a slight uptick in consumer delinquencies. Agriculture conditions were steady to slightly up as farmers reported higher selling prices; yields were mixed. Commercial real estate activity continued to slow; the office segment remained weak and multifamily activity softened. Several Districts noted a slight decrease in residential sales and higher inventories of available homes. The economic outlook for the next six to twelve months diminished over the reporting period.

LABOR MARKETS

Demand for labor continued to ease, as most Districts reported flat to modest increases in overall employment. The majority of Districts reported that more applicants were available, and several noted that retention improved as well. Reductions in headcounts through layoffs or attrition were reported, and some employers felt comfortable letting go low performers. However, several Districts continued to describe labor markets as tight with skilled workers in short supply. Wage growth remained modest to moderate in most Districts, as many described easing in wage pressures and several reported declines in starting wages. Some wage pressures did persist, however, and there were some reports of continued difficulty attracting and retaining high performers and workers with specialized skills.

▲ **The majority of Districts reported that more applicants were available, and several noted that retention improved as well.**

PRICES

Price increases largely moderated across Districts, though prices remained elevated. Freight and shipping costs decreased for many, while the cost of various food products increased. Several noted that costs for construction inputs like steel and lumber had stabilized or even declined. Rising utilities and insurance costs were notable across Districts. Pricing power varied, with services providers finding it easier to pass through increases than manufacturers. Two Districts cited increased cost of debt as an impediment to business growth. Most Districts expect moderate price increases to continue into next year. ▲

▲
Most Districts expect moderate price increases to continue into next year.

Source: The Federal Reserve's Beige Book

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Outlook Across the 9th District

Previous softened economic activity leads to uncertainty

Economic activity in the Ninth District was flat to down slightly since the previous report. Employment grew modestly, but job openings declined. Wage pressures were unchanged but ongoing wage growth remained above average, while price pressures were modest. Growth was noted in some areas of construction, but residential construction was slow, and manufacturing also fell slightly. Consumer spending was flat. Agriculture weakened as farm incomes softened, and energy exploration was unchanged. Minority- and women-owned businesses reported steady activity.

▲ Montana is part of the 9th District of the Federal Reserve Bank.

LABOR MARKETS

Employment grew modestly since the last report. But there was variation among sectors, some of which had increased layoffs. Labor demand was positive overall but somewhat lower than earlier in the year. Some contacts reported that they were not replacing workers who had left, or were eliminating open positions. Strong labor demand was reported by health care and finance firms, while hiring sentiment was softer in other sectors, including manufacturing. More than half of construction contacts were hiring, though many were attempting to fill turnover; the share that was not hiring grew, and one in seven was cutting workers. Expected labor demand for the coming months was moderately positive overall. Among those planning to hire, a notable share cited overworked staff as an important factor for doing so.

Wage pressures were unchanged since the last report, but ongoing wage growth remained above average. A general survey of District firms found that about 30 percent were raising wages by more than usual, while a similar share reported raising wages by less than usual or not at all. A survey of construction firms found that about 70 percent had increased wages by at least 3 percent over the last year despite some evidence of recent sectoral slowing. Expectations of future wage increases were similar to the sentiment six months ago.

PRICES

Price pressures increased modestly since the last report. Slightly fewer than a quarter of firms responding to an October business conditions survey indicated that their prices charged to customers increased from the month prior, while 15 percent said they reduced their prices. A larger share reported that their nonlabor input prices increased. Administrative contacts reported an increase in the price of office supplies. A regional food producer said that milk and cheese prices declined recently. Retail fuel prices in District states decreased briskly since the previous report.

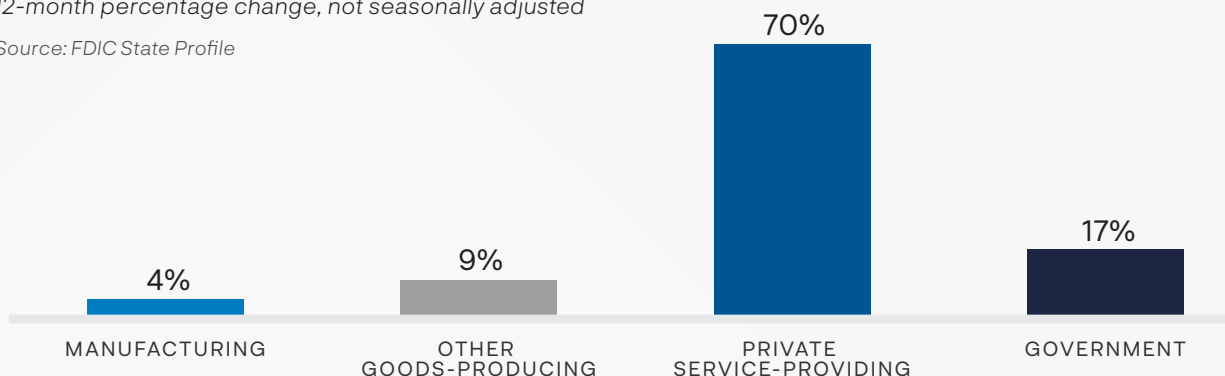
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MONTANA

Employment Growth Rates

12-month percentage change, not seasonally adjusted

Source: FDIC State Profile



WORKER EXPERIENCE

In a recent survey, half of employed respondents expressed satisfaction with their current job, wages, and company culture. The other half of respondents were looking for new opportunities and hoping to increase their earnings, but they categorized potential opportunities as average at best. Job seeking respondents cited bad job options, lack of response from potential employers, and unreasonable skill or experience expectations as the top three factors preventing them from reaching their objectives. A worker highlighted that starting pay was “far too low” despite his experience in a variety of trades. Another worker expressed frustration with college education requirements, saying that “most companies are not willing to compensate for years of service without a degree.”

CONSUMER SPENDING

Consumer spending was flat since the last report. Recent sales tax receipts in Minnesota were flat month over month and year over year. Contacts reported that consumers have become more price sensitive for everyday goods, with growing purchases at low-cost retailers compared with premium ones. At the same time, sales of some big-ticket items remained healthy. A vehicle dealer with locations in multiple District states saw October sales rise by 10 percent over last year. A northern Wisconsin banker noted the disparate tendencies. “People are mad about eggs costing more, but they’ll still buy a car.” Other banking contacts noted increased use of credit card and home equity lines of credit to maintain spending levels. Tourism traffic in Michigan’s Upper Peninsula remained robust this fall. Hotel occupancy rates in Minnesota were notably higher than a year ago, and lodging and accommodation fees in Montana remained on par with last year’s record pace.

▲ Job seeking respondents cited bad job options, lack of response from potential employers, and unreasonable skill or experience expectations as the top three factors preventing them from reaching their objectives.

MANUFACTURING

District manufacturing activity decreased slightly since the previous report. Manufacturing respondents to an October business conditions survey reported decreased orders on balance relative to a month earlier, with expectations for a further decrease in the month ahead. A regional manufacturing index indicated increased activity in North Dakota and South Dakota in October from a month earlier, while activity decreased slightly in Minnesota. A custom manufacturer said recent sales “dropped like a rock.” One contact reported that because of the undersupply of workers to the sector, “thousands of unfilled jobs would need to be eliminated before anyone gets to layoffs.”

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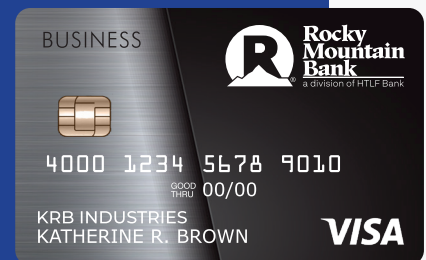
The payments landscape is changing.

With 73% of companies transitioning from paper checks to electronic payments¹, now is the time to make the switch from outdated, costly and time-consuming payment methods.



¹2022 Association for Financial Professionals Payments Cost Benchmarking Survey

Scan here to learn more about the **Commercial One Card** or stop by one of our banking centers.



CONSTRUCTION AND REAL ESTATE

Construction activity was flat overall since the last report, with considerable variation among subsectors and some concern for near-term activity. Firms involved with larger industrial and infrastructure projects reported moderately increased activity compared with last year, while firms in the commercial and especially residential sectors saw lower revenues over the same period. Contacts across the sector noted that project backlogs had shrunk, particularly for residential and commercial projects; new projects out for bid had also fallen. As a result, activity across the sector was expected to be lower over the coming months compared with last year.

Commercial real estate fell modestly. Office space remained challenging, with high vacancy rates because large tenants continued to seek smaller footprints. Multifamily vacancy rates have risen in many regions as new units come to market; however, new developments in this sector have slowed. Speculative development has also slowed for industrial space as vacancy rates ticked slightly higher, but from low levels. Residential real estate remained subdued, with year-over-year sales continuing to decline.

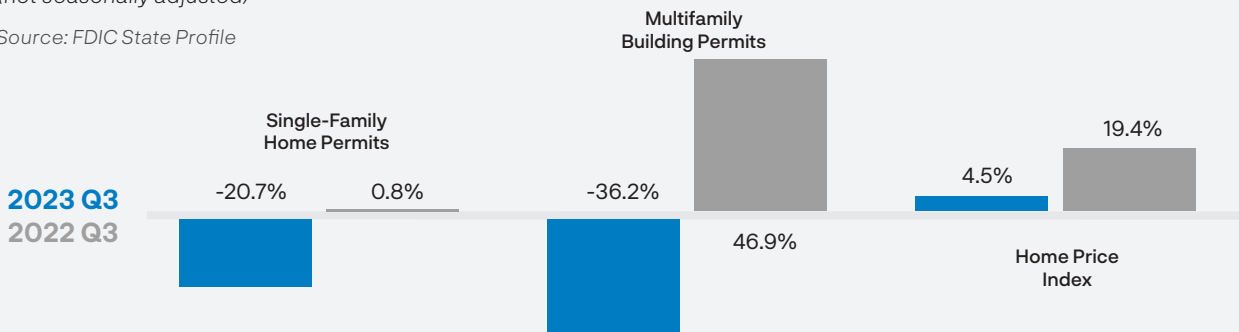
▲
Activity across the sector was expected to be lower over the coming months compared with last year.

MONTANA

Other Economic Indicators

(not seasonally adjusted)

Source: FDIC State Profile



▲
Contacts expressed concern over the impact of rising interest costs as borrowing increases.

AGRICULTURE ENERGY AND NATURAL RESOURCES

District agricultural conditions deteriorated slightly since the last report. Despite better-than-expected crop production, lenders responding to the Minneapolis Fed's third-quarter survey of agricultural credit conditions, conducted in October, reported lower farm incomes and capital spending over the period relative to a year earlier. Contacts expressed concern over the impact of rising interest costs as borrowing increases. District oil and gas drilling activity was unchanged since the previous report. ▲

Source: The Federal Reserve's Beige Book

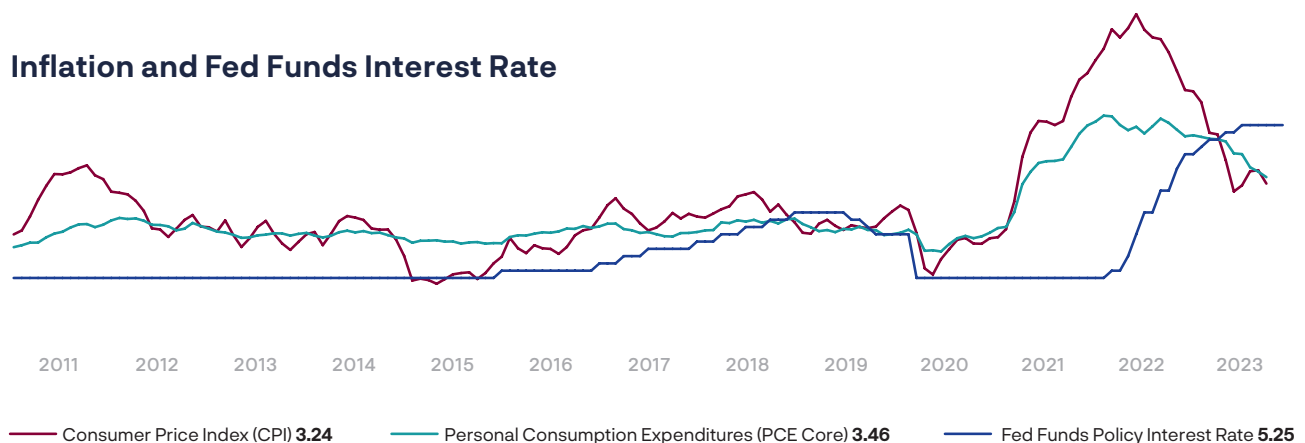
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The Recession of 2024 Might Surprise Everyone

PAUL DICKSON, DIRECTOR OF RESEARCH, VP

A year ago, a headline “The Recession of 2023 might surprise everyone” would have been prescient simply because it didn’t happen. On the contrary, last year showed surprising resilience and a pace of growth no one expected, despite forecasts of a slowdown or recession by most economists. 2023 was supposed to have been the year in which the economy succumbed to the sharpest increase in interest rates in four decades; tightening lending standards by the banks; and the end of pandemic-era government spending. Accumulated savings from Covid-related shutdowns and receipts of stimulus checks were expected to have run out well before the end of the year helping foment a recession. This did not happen in 2023, but chances seem higher for 2024.

Inflation and Fed Funds Interest Rate



THE FEDERAL RESERVE’S FINALE

At December’s Federal Reserve Open Market Committee (FOMC) meeting the members indicated that the cycle of rate hikes has ended.

Most of us opined that the policy interest rate (Fed Funds) will be cut several times through the course of the year. It appears (see Inflation and Funds Interest Rate graph) that inflation is on a path to the Fed’s 2% target, fulfilling the first part of its “stable prices and full employment” mandate. The challenges to achieving that goal are the tight labor market, persistent and surprising housing inflation, and economic activity being bolstered by an unanticipated boom in investment.

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Accumulated savings from Covid-related shutdowns and receipts of stimulus checks were expected to have run out well before the end of the year helping foment a recession. This did not happen in 2023, but chances seem higher for 2024.

LOOKING FOR SLACK IN THE LABOR MARKET

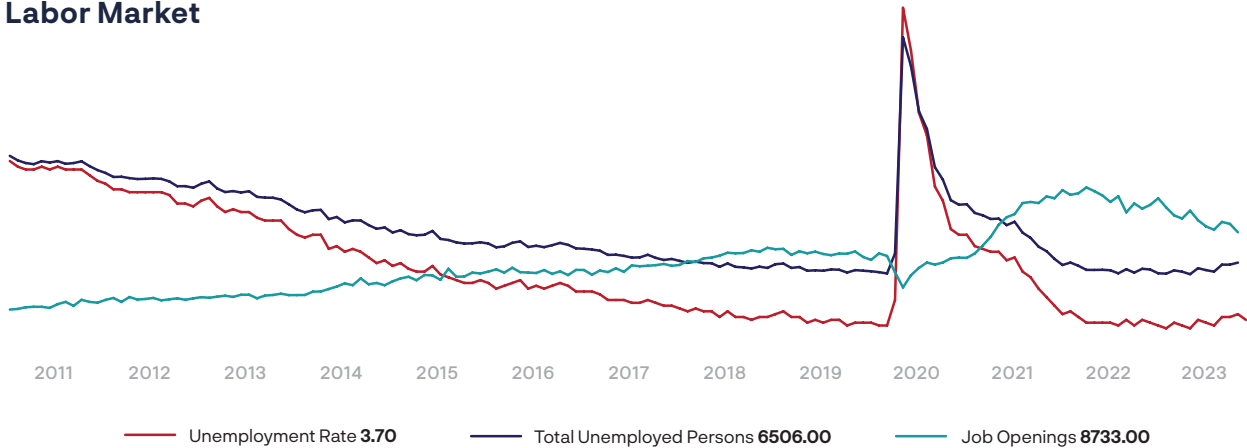
The unemployment rate hit a 50-year low at the end of 2022.

At the same time, the number of job openings skyrocketed to double that of the unemployed. This data and mounting labor action sparked worries of a wage-price spiral akin to those of the 1970s. Job openings have declined but remain historically high compared to the number of jobless and the unemployment rate remains near all-time lows and at levels once deemed unlikely. Having succeeded in the second part of its dual mandate — full employment — the Fed wants more slack to feel comfortable.

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Labor Market



Paul Dickson, Director of Research, VP, joined HTLF in 2012 and brings over 20 years of industry experience with him. His specific area of expertise is fixed income investing and he assists with global economic and risk analysis. Paul was previously the head of JP Morgan Asset Management’s Emerging Markets Fixed Income team managing \$6 billion in assets. Prior to that, he was a senior bond strategist at Lehman Brothers and was a founding member of Chase Manhattan Bank’s first Emerging Markets Research Group. He holds dual master’s degrees in Economics and International Studies from Johns Hopkins School of International Studies in Washington, D.C.



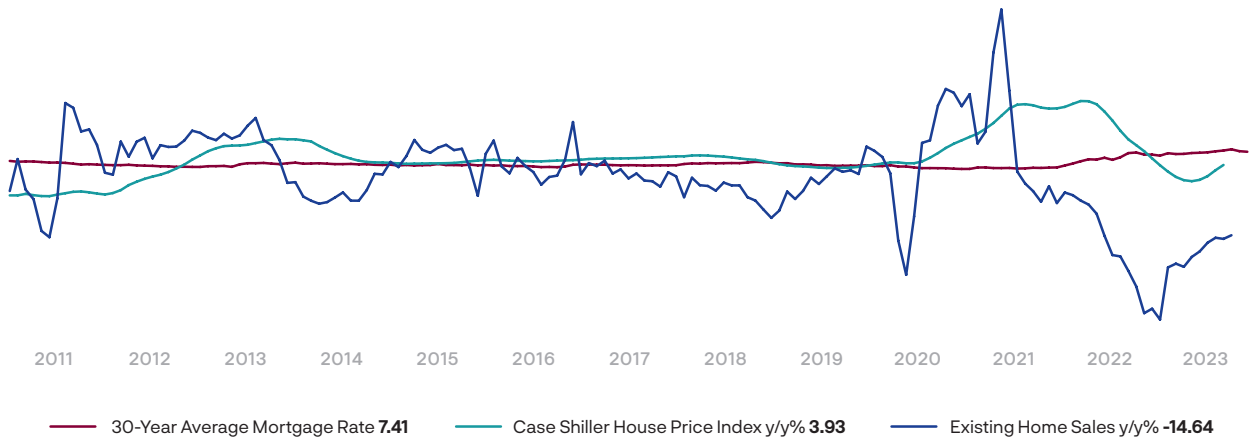
Paul Dickson
Director of Research, VP

HOUSING DILEMMA

Inflation measures have been skewed higher due to the tight housing market. Representing more than a third of the inflation indices, housing or shelter prices play a dominant role. Measured by surveys rather than transactions, the slowdown in home sale volume and the decline in actual sales pricing is not captured. Instead, the persistent housing shortage, estimated to be near 4 million units, has led to an overestimation of value by people surveyed. The Federal Reserve had hoped that a rise in mortgage rates would set off a decline in home prices due to a lack of affordability. Paradoxically, the rise in mortgage rates has led to a decline in home availability, because those who enjoy low mortgage rates are less likely to sell. This has supported higher prices, rather than lower ones. Recently, Fed officials have noted this issue publicly and a “Supercore” inflation index that excludes housing in addition to food and energy has become popular as it may show a better metric.

The Federal Reserve had hoped that a rise in mortgage rates would set off a decline in home prices due to a lack of affordability. Paradoxically, the rise in mortgage rates has led to a decline in home availability, because those who enjoy low mortgage rates are less likely to sell.

Housing Market



SPENDING AND INVESTMENT

Economic policies such as the Infrastructure Investment and Jobs Act, CHIPS and Science Act, and the Inflation Reduction Act have heightened spending and investment by the government directly and incentivized private industry to do so as well. These have contributed to an economy already buoyed by robust consumer spending and helped forestall the expected slowdown over the past year.

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THE OUTLOOK FOR 2024

Expectations from the start of 2023 are repeating themselves for 2024. The bond market is pricing a series of interest rate cuts starting in the Spring on the belief that inflation will continue to fall towards the Fed's target of 2% and implying that those cuts will be necessary as the economy flirts with recession. There have been studies suggesting that the Covid-era savings have been depleted among lower income households and soon will be for everyone else. Credit card balances have risen significantly. This coincides with a significant rise in payment delinquencies for credit cards, auto loans, and mortgages. The recent resumption in student loan payments adds another source of stress for millions of consumers. Higher mortgage rates have slowed home sales, and this will dampen activity in many related sectors from construction to household appliances. The commercial property sector has not recovered from Covid-era work transitions and is under pressure from higher interest rates, lower valuations, and more limited prospects. Private credit markets, undermined by higher interest rates, may be hiding vulnerabilities so far undetected. These developments imply a more fragile economy in the coming year and a growing likelihood of recession.

The bond market is pricing a series of interest rate cuts starting in the Spring on the belief that inflation will continue to fall towards the Fed's target of 2% and implying that those cuts will be necessary as the economy flirts with recession.

The Federal Reserve has significant room to cut interest rates to counteract a sharper than expected economic decline. Timed right, a soft landing could still take place even if the bad news outweighs the good.

Standing in opposition to a recessionary outcome is an economy starting from a reasonably strong position. Unemployment remains near a multi-decade low and a small rise, while unfortunate for those put out of work, would be more in line with historic norms. A softening of this tight labor market would be a relief for policymakers, and many firms still need to fill vacant positions. In aggregate, consumer balance sheets are in good shape with debt to disposable income being in line with historic norms. Rising credit card debt is far from being worrisome so consumers have significant borrowing capacity. Most of the banking sector is in good shape and the systemic problems that led to the Global Financial Crisis of 15 years ago are not apparent. House prices might come down in some markets, but with a housing shortage still generally present, a serious downward spiral is improbable. Finally, the Federal Reserve has significant room to cut interest rates to counteract a sharper than expected economic decline. Timed right, a soft landing could still take place even if the bad news outweighs the good.

On balance, a mild recession in the second half of the year seems likely. But the title of this article could also prove prescient when one fails to occur. ▲

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FRAUD

Trends and Best Practices

Fraud continues to be a challenge for many organizations. According to the 2023 Association for Financial Professionals, 65 percent of organizations report that they continue to be targets of fraud. And as the payments landscape continues to evolve, fraudsters are evolving their tactics too.

Targets of Payments Fraud

Check issuing continues to decline as the number of organizations using digital payments increases. The mass adoption of digital payments is partly due to the remote work environment. Electronic payment usage increases may also be the reason there has been an uptick in ACH fraud. However, checks continue to be the primary target for fraudsters.



63%
CHECKS



36%
CREDIT CARDS



31%
WIRE TRANSFERS



30%
ACH DEBITS



30%
ACH CREDITS

Integrated Payables

One payment solution for all payment types

Integrated Payables is truly the complete commercial payments solution for all payment types, and it benefits both you and your vendors. Build better relationships with them, and give valuable time back to your employees so they can better focus their efforts on the success of the business.



Scan here to get started

building better relationships with vendors, and give valuable time back to employees so they can better focus on the success of the business.

Leading Source of Fraud: Business Email Compromise

Fraudsters continue to exploit businesses via business email compromise (or "BEC") with 71% of organizations experiencing these fraud attempts or attacks. Although this is an increase from 68% in 2021, the study found that this year, fewer, smaller organizations were targets of BEC fraud. This may suggest that the implementation of controls and measures organizations have taken to mitigate fraud have been successful.

BEC is a scam targeting business' payment processes. Essentially, a fraudster takes over valid business email accounts through social engineering or computer intrusion techniques to process or initiate unauthorized transfers of funds. The individual responsible for processing payments is tricked into thinking the request is valid, coming from a company leader, partner or third-party vendor, and processes the payment.

Payment Methods Impacted by BEC



45%
WIRE TRANSFERS



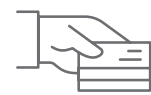
34%
ACH CREDITS



26%
ACH DEBITS



16%
CHECKS



8%
CREDIT CARDS

BETTER PROTECT YOUR BUSINESS

Safeguarding your assets begins with awareness and recognizing that prevention is an ongoing critical business strategy. Fraudsters are always searching for new schemes to capture funds from their victims. When they plan their attacks, they are looking for vulnerabilities in an organization's payment controls and processes. There are several steps a business can take to mitigate fraud and avoid potential financial losses.



Best Practices to Fight Fraud

CONDUCT ONGOING EMPLOYEE TRAINING

Employees are the gatekeepers of your organization. With proper training, they can more effectively safeguard your financials. AP/AR departments are often in the fraudster's crosshairs, so training and following strong policies in those departments are particularly crucial.

Possible training topics include:

- ▶ Defining fraud and the consequences
- ▶ Presenting examples of fraud the company may be exposed to
- ▶ Reviewing policies/controls to prevent internal and external fraud
- ▶ Practicing recognizing fraud indicators and red flags
- ▶ Reviewing the steps to report suspected and actual fraud

REVIEW INTERNAL CONTROLS AND PROCEDURES

Strengthening internal controls and procedures is the greatest fraud deterrent.

Below are a few controls/procedures to consider:

- ▶ Establish a limit per account and/or employee
- ▶ Separate responsibilities to establish checks and balances
- ▶ Require approval on all payments
- ▶ Set limits based on payment history
- ▶ Reconcile activity daily to identify suspicious payments, giving the company the opportunity to stop and/or recover fraudulent payments

IMPLEMENT VERIFICATION PROCESSES

Additional verification before submitting payment could make all the difference in identifying fraud and preventing financial loss. Implementation involves updating policies/controls and educating employees on the updated payment processes.

Consider the following:

- ▶ Changes in payment information must be verified by calling the phone number on file for the vendor
- ▶ Adding a new vendor requires approval from multiple employees
- ▶ All payments requested via phone or email must be verified by calling the phone number on file for the vendor
- ▶ Large payments should prompt for approval from management

TOOLS AND RESOURCES TO HELP FIGHT FRAUD

Strong policies, continuous employee education and accessible fraud tools and resources can help to mitigate fraud. AFP reported organizations use the following practices to help reduce fraud risk:



FIGHTING CHECK FRAUD

92%

USE CHECK POSITIVE PAY

79%

USE PAYEE POSITIVE PAY



FIGHTING ACH DEBIT FRAUD

51%

USE ACH POSITIVE PAY

79%

USE DAILY RECONCILIATION



[Download Fraud Prevention Guide](#)

Source: [Association for Financial Professionals: 2023 Payments Fraud and Control Survey Report](#)

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Contact Rocky Mountain Bank, a division of HTLF Bank today to speak with a commercial banker. Together, we can **build a fraud prevention strategy to help protect your business** in mitigating fraud risk.

Thriving vs. Surviving?

Wise Liquidity Management Moves for Businesses in All Seasons



The economic forecast may be uncertain, but preparing for inflated rates is the smartest course of action. Liquidity management is a lot of work, but the benefits can help your business thrive rather than survive. Learn more about how you can keep your business afloat in every season.

A fluctuating economic environment, such as the one we're currently experiencing, has historically pointed toward the imminent possibility of a recession. While forecasts aren't 100% reliable, proactive leaders should prepare for economic turmoil by reimagining their company's liquidity management.

Under these economic conditions, weathering the storm is a matter of preparation. Streamlining your cash flow can build resistance against outside economic forces.

It is possible to increase your working capital without bringing in additional revenue. You simply need to increase the efficiency of your cash conversion cycle (CCC). Regardless of whether inflation persists, you'll benefit immensely from addressing stagnations within your CCC. And should a recession occur, companies with increased access to working capital will hold a significant advantage.

There are several strategic liquidity management moves you can make to shore up your company's financial health.

The following key steps can help you remain agile in a challenging environment.

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1 IMPROVE VISIBILITY ON YOUR CURRENT FINANCIAL PERFORMANCE

Your financial data provides a comprehensive overview of your CCC and empowers you to identify and address otherwise unnoticed issues. Visible treasury data enables you to leverage your internal insights to adapt more quickly—a feature that can make or break businesses in a volatile economic environment.

However, finding the right liquidity management techniques for your CCC requires a detailed understanding of your position. So, to this end, let's review some of the key terms and factors that will determine which strategic course of action is most viable for your company.

LIQUIDITY MANAGEMENT AND MEASUREMENTS

First, a quick overview of the fundamentals. A company's liquidity is measured by the ratio of assets that can be converted to cash against debts due over the next year.

Volatile markets have significant impacts on this ratio. For example, liquidation might take extended periods due to factors like supply chain backups.

Liquidity management refers to the oversight of working capital to meet a company's financial obligations and, hopefully, optimize its yields.

NET BORROWERS VS. NET INVESTORS

Net borrowers are organizations that borrow more than they lend or save. Over time, excessive debt accumulation can lead to an unmanageable burden, especially in volatile economies with rising interest rates.

Some industries necessitate operating as net borrowers. In these cases, high liquidity management is needed to meet obligations. Optimizing your CCC is critical when operating within this business framework.

Net investors, on the other hand, generate enough capital to cover their costs, making them more resistant to volatile interest rates. However, net investors aren't immune to economic challenges. CCC optimization can still protect them from market changes. Plus, shortening the cycle can yield significant returns.

CASH CONVERSION CYCLE OVERVIEW

Your cash conversion cycle is a simple calculation of how long you can bear the costs of making or providing your goods or services before you receive payment. Shorter cycles add value to a company by increasing liquidity and enjoying fewer funding requirements.

Optimizing your CCC is the process of streamlining cash flows to increase the amount of working capital your company has access to at any moment. Three essential elements form the CCC:

▶ Days Inventory Outstanding (DIO)

Days Inventory Outstanding (DIO) measures how long it takes to convert raw materials into products or services. Issues with DIO management can result in unnecessary inventory storage costs or supply chain delays.

Reducing the time frame of your DIO contributes to a lower CCC, as capital spends less time tied up in physical products. However, many companies are rethinking the just-in-time approach after manufacturing bottlenecks disrupted their operations during the Covid-19 pandemic.

▶ Days Sales Outstanding (DSO)

Days Sales Outstanding (DSO) tracks the average time you collect payments after a sale. Reducing your DSO is also advantageous because it accelerates receivables and increases the speed of your CCC.

Digital solutions that automate accounts receivable (AR) department processes can drive down time frames by increasing customer convenience and speeding up transactions.

▶ Days Payable Outstanding (DPO)

Days Payable Outstanding (DPO) describes the average amount of time it takes for your company to pay suppliers after delivery. Expanding your DPO time frames contributes to an efficient CCC by keeping working capital in your company's hands longer. Larger companies are often able to obtain extended payment terms from smaller suppliers.

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Establishing benchmarks to measure your financial performance is one of the best ways to streamline your capital management. No company can maintain viability if, in the long term, its cash inflows don't exceed its cash outflows.

2 ESTABLISH WORKING CAPITAL BENCHMARKS FOR YOUR BUSINESS

Establishing benchmarks to measure your financial performance is one of the best ways to streamline your capital management. No company can maintain viability if, in the long term, its cash inflows don't exceed its cash outflows.

In other words, there must be enough incoming capital to meet obligations. This is known as a positive cash flow. It differs from profitability, yet it's an essential metric to track. Maintaining access to working capital to fund operations is critical.

Benchmarks generally compare your industry competitors' performance against your own. The goal is to find operational lags or issues with your cash flow that could impact your long-term financial health. Because the measurement is industry-specific, you'll need to determine which metrics are meaningful to optimize your operations fully.

For instance, businesses without inventory, such as software companies, will obviously not need to track their DIO. However, because liquidity management is critical across industries, slimming down your CCC can be done by examining several cash flow key performance indicators (KPIs).

Most notably, reducing your DSO and increasing your DPO significantly shortens your CCC. As a result, you can increase your positive cash flow. However, extending your DPO too far puts your future credit terms at risk. So, if your DPO benchmark falls behind the industry standard, you should renegotiate better terms.

Of course, the other half of the equation is to set your DSO against similar industry benchmarks. If you're experiencing delays relative to these industry standards, you should investigate faster ways to collect. Or, you could perhaps offer incentives to encourage early payments.

Your company will have unique benchmarks to track and compare. An experienced banking partner can help you set and manage your cash flow KPIs.

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3 OPTIMIZE WORKING CAPITAL MANAGEMENT THROUGH TECHNOLOGY

Across different industries, companies are quickly turning to digital solutions for liquidity management and CCC optimization. The Covid-19 pandemic only accelerated the digitization of treasury management systems, as efficient remote processes became operationally critical.

Today, many companies still use manual or paper processes in their accounts payable (AP) and AR departments. Although, companies clinging to these outdated systems likely won't be able to compete with those using artificial intelligence (AI)-driven automation to increase speed, accuracy and data visibility.

Modern treasury technology is beneficial in a volatile economic environment. The comprehensive information sets generated from sophisticated digital treasury systems can provide the necessary information to compare your results with relevant industry benchmarks.

In fact, through advanced technology, you can carefully navigate an inflationary cycle with meticulous liquidity management to potentially gain a competitive edge.

Modern treasury technology is beneficial in a volatile economic environment. The comprehensive information sets generated from sophisticated digital treasury systems can provide the necessary information to compare your results with relevant industry benchmarks.



LIQUIDITY MANAGEMENT ACROSS INDUSTRIES

Of course, while treasury technology advances are ideal across sectors, your industry will largely determine the best approach to optimize your working capital management.

For instance, retail companies' most common cash flow bottleneck is the gap between inventory purchases and sales. This can be extensive, especially when gearing up for the holiday season.

Treasury technology can help solve these issues by streamlining your accounting processes and freeing up your AP department's time to focus on supplier relationships. Negotiating better terms may also help retail businesses avoid borrowing from a bank to cover costs.

On the other hand, manufacturing companies that sell goods on credit commonly experience cash outflow issues. This is because significant costs are incurred during the manufacturing process.

In response, manufacturers can use their convenient treasury technology to request payment prior to production. This can greatly reduce manufacturing CCCs and increase access to working capital.

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4 UNLOCK “TRAPPED” CASH

The ultimate effect of modern treasury management technology is to free up stagnant cash flows by empowering you with greater data visibility and benchmark tracking.

One of the most obvious negative consequences of financial data silos between departments is that it reduces the cohesion of your corporate accounting department’s communications. This results in increased errors.

Analytics are increasingly used to optimize decision-making. As a result, companies that don’t adopt a unified system that produces comprehensive data sets can easily fall behind.

Treasury technology is quickly taking over as the foremost tool for liquidity management. So, let’s see how the use of data can optimize your CCC:

► **Improving Collections:**

Accurate and up-to-date reporting on collectibles is critical for your receivables, as proactively addressing missing payments is impossible without knowing which payments are late. Technology can further assist collection efforts by automating reminders and offering predetermined incentives for early payments.

► **Increasing Float:**

Float refers to the period during which transaction processing delays result in a double count of funds. More precise automated payment times can help you optimize your incoming cash flow to accrue interest or gain time before payments are processed.

► **Improving Operational Efficiency:**

Thanks to the introduction of advanced digital treasury tools, paper or manual processing in AP or AR departments is quickly becoming a waste of time. Administrative work can be done more quickly and accurately by AI. Digital systems free your staff to work on more complex and goal-oriented issues like streamlining your CCC and reducing unnecessary expenses.

Data analytics is the future of financial decision-making, but many companies haven’t yet adopted an information-based approach. So, early system upgrades can potentially confer exceptional competitive advantages at the moment.

5 STRENGTHEN RELATIONSHIPS WITH BANKS AND BANKING PARTNERS

Strengthening your relationship with your local bank is one of the most important (yet often overlooked) preparatory measures you should take in any economic climate, but especially if hard times are predicted.

Demonstrating your proactive liquidity management and holding early discussions about potential risks can build trust. It may even yield advantages such as favorable terms, reduced interest rates, and more capital.

The experienced banking partners at your local bank branch can be sound resources when you experience cash flow issues. Your bank wants to help you reach your financial goals, so you can get personalized expert advice on your unique situation. But first, you need to reach out and brief them on your company's strategies and finances.

Your local bank's liquidity management experts can help you set your industry benchmarks and implement tracking technology to measure your performance. They can also work with you set your finances in order. This includes granting you access to capital and helping you create a smart and strategic plan for optimizing operations.

Learning how to leverage new treasury technology can be intimidating, but a local financial partner can help you through the digital transition.



CONSULT WITH AN EXPERT TO OPTIMIZE YOUR LIQUIDITY MANAGEMENT

The five steps outlined in this article—improving visibility, establishing benchmarks, optimizing working capital management, unlocking trapped cash and strengthening your relationship with your local bank—are vital responses to volatile markets. Of course, they offer significant advantages even under normal circumstances.

The business world is going digital, making manual or paper systems obsolete. Upgrading your treasury systems enables both automated increases in efficiency and data analytics. What's more, optimizing your CCC requires extensive reporting capabilities within your system, so upgrading your processes is a competitive necessity. ▲

The experts at Rocky Mountain Bank, a division of HTLF Bank, are here to help you **increase your financial performance** by **optimizing your cash flow and increasing your access to working capital**. They can help you strategize for future uncertainties and shore up your company's financial health.



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