

AFP®



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ORIGINAL → ESSENTIAL → UNBIASED → **INFORMATION**

Developing an Operational Cash Forecast

Presenters:

Mike Leo – Health Care Service Corporation

John Covey – PricewaterhouseCoopers

Agenda

- Health Care Service Corporation
- Cash Forecasting Drivers and Benefits
- Cash Forecast Development
- HCSC's Cash Forecasting Process
- Lessons Learned

Health Care Service Corporation (HCSC)

The nation's fourth largest health insurance company

- The nation's largest mutual health insurer
- Serving approximately 13.5 million members in five states
- HCSC provides insurance through Blue Cross and Blue Shield of Illinois, New Mexico, Oklahoma, Texas and Montana

Health Care Service Corporation

Financial strength is a cornerstone of HCSC's business

- HCSC stands by its members with strong financial ratings
 - A+ from A.M. Best Company
 - AA- from S&P
 - A1 from Moody's
- Historically a “net investor”
- Cash balance targets are prudently developed to cover all known outflows

HCSC's Drivers for Cash Forecasting

HCSC had a number of drivers for implementing a formal cash forecasting program

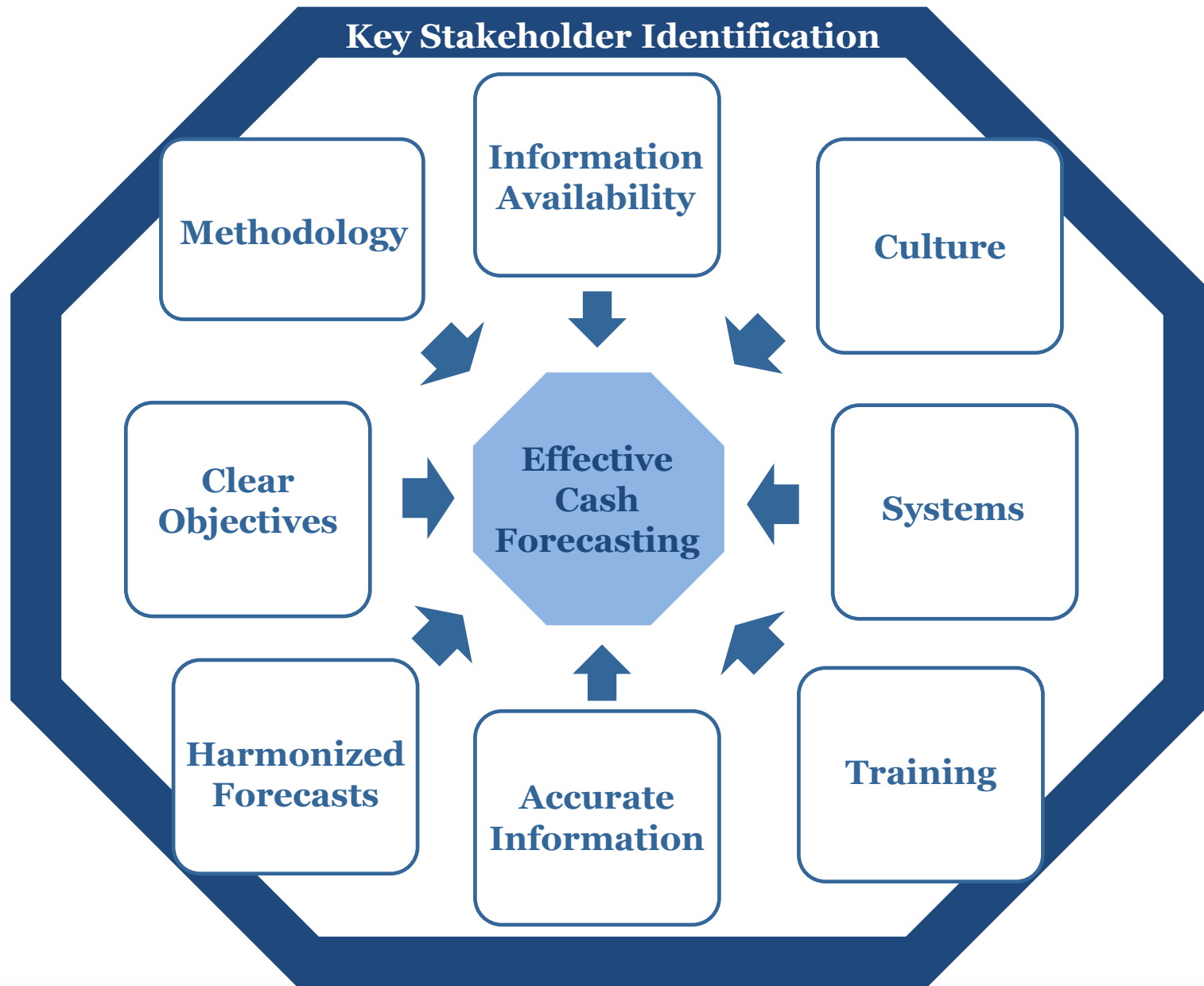
- A formal program will allow HCSC to better manage working capital
- Provide visibility for a new liquidity structure
- Materially increase investment performance through longer term investment vehicles

Benefits of Cash Forecasting

Companies that have a robust cash forecast process realize value in many ways

- Supports cash culture with accountability for results
- “Early warning” for liquidity problems/opportunities
- Optimize short-term investing / borrowing decisions
- Analysis of actual vs. expected cash flows
- Increase insight into the company’s cash drivers
- Increase confidence in external reporting

Key Success Factors



Cash Forecasting Development Approach

An organized approach to information discovery and program development increases chances of success



Assess

Design

Construct

Implement

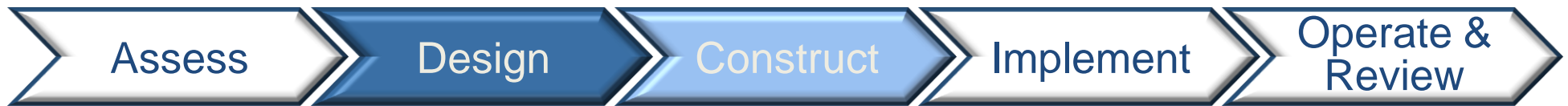
Operate &
Review



The Assess phase confirmed HCSC's business needs and analyzed the cash flows and availability of information

Work Performed

- Articulate cash forecasting objectives
- Assess current state cash forecasting activities
- Identify cash flows and drivers
- Identify cash flow line items
 - Analyze bank BAI cash flow data
- Assess magnitude and volatility of cash flows
 - Identify key cash flows for trending
 - Perform trending analysis
- Document key requirements for forecast design
- Assess technology options



The Design phase outlined the processes and data flows, while Construct included system configuration and a pilot run

Work Performed

- Define input data requirements
- Design and develop cash forecasting processes
- Design management reports
- Develop schedule for cash forecast meetings
- Work with functional departments to prepare for data submissions
- Establish basic cash forecast functionality within the treasury management system
- Execute a pilot run of the cash forecasting program



The Implement phase consisted of full roll out, while the Operate and Review phase achieved go live

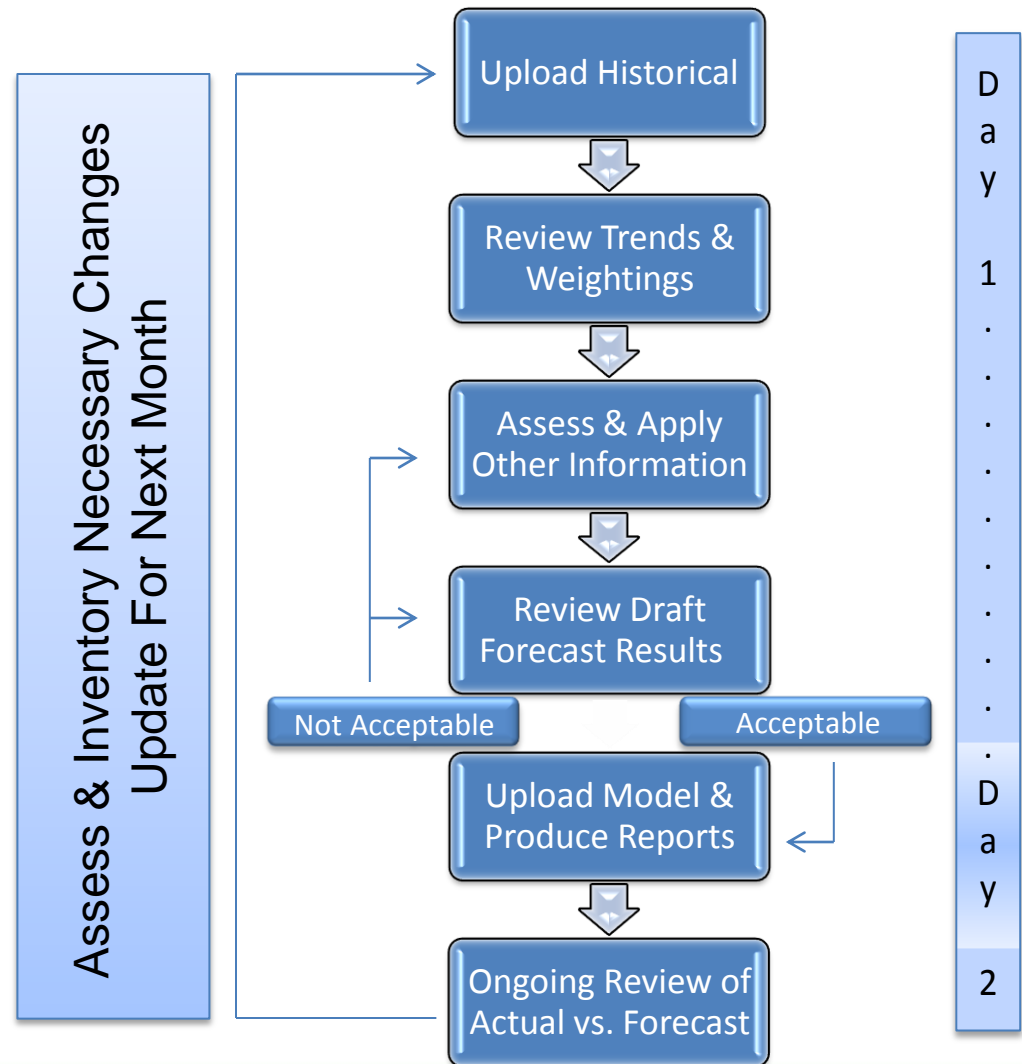
Work Performed

- Refine cash forecast processes
- Roll out full implementation within TMS
- Build an analysis tool in Excel to augment TMS capabilities
- Build management reports and dashboards
- Develop cash forecasting policy
- Document desk procedures
- Schedule cash forecast meetings
- Train Treasury Operations team
- Go live
- Assess new process/tools and adjust as necessary

HCSC's Cash Forecasting Process

HCSC leverages historical and predictive data, tempered with human judgment

- Leverage historical cash flow data
- Capture current functional department inputs
- Applies refinements via on-going management review and approval



Lessons Learned

- **Assessment Phase is critical**
 - Articulate objectives within Treasury and beyond
 - Identify and categorize cash flows
 - Evaluate technology solution
- **Cash forecasting is much more than technology**
 - Good information from the business is key
 - Robust process needed to ensure consistency
 - Systems/tools do not replace human judgment
- **Establishing a forecast is just the beginning**
 - Use outputs to support business decisions
 - Continuously improve the process

Presenters

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Appendix

Key Design Factors

Factors	Description (<i>examples</i>)
Objectives	<ul style="list-style-type: none"> • Provide visibility into short term cash and working capital needs • Report to external stakeholders on available liquidity with confidence
Forecast method	<ul style="list-style-type: none"> • Receipts and disbursements method
Spread/scope of cash flows to be forecast	<ul style="list-style-type: none"> • Business Units/Legal Entities: Corporate, Subsidiary 1, Subsidiary 2 • Regions/Countries: North America, EMEA • Cash Flow Types: All cash inflows and outflows, including operating, non-operating, financial, investment, and intercompany cash flows
Time horizon and period intervals to be used	<ul style="list-style-type: none"> • Time Horizon: 13 weeks • Intervals: Daily; Weekly; Monthly
Variance Analysis	<ul style="list-style-type: none"> • Forecast vs. Actual and Forecast vs. Forecast to be performed daily • Variance analysis interval – daily, weekly, monthly • Threshold amount requiring analysis based on line item
Primary areas requiring trending / analysis	<ul style="list-style-type: none"> • Revenues • Accounts Payable • Intercompany Trade Receipts/Payments
Primary line items	<ul style="list-style-type: none"> • <i>Operating cash in- and outflows</i>: Receivables & collections , Intercompany payables and receivables, Payroll • <i>Non-Operating cash in- and outflows</i>: Tax, CAPEX, Restructuring charges, Other (Pension, etc.) • <i>Financial in- and outflows</i>: Intercompany funding, Asset Sales, Debt (principal, interest, fees) • <i>Investing in- and outflows</i>: Short and Long Term Investments