



UNDERSTANDING THE CASH SEGMENTATION PROCESSES

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Introduction

Treasury and finance teams are under growing pressure to do more with less. Managing liquidity has become more challenging due to tighter credit markets, volatile rates, and geopolitical uncertainties.

Many organizations are responding by organizing and enhancing their cash management practices into a few focused activities:

- Forecasting cash flows.
- Segmenting cash flows.
- Establishing a [Cash Management Investment Policy Statement](#).
- Choosing investment options to match cash segments.

Cash segmentation is a critical component of this process. Categorizing cash by purpose brings structure and clarity to liquidity planning and enables faster, more confident investment decisions.

What is Cash Segmentation?

Cash segmentation is the process of organizing cash into defined use categories. Separating cash rather than viewing it as a single balance makes it easier to match funds with their intended purpose, identify what's available, and manage risk more effectively. With segmentation in place, financial leaders can unlock greater value from their cash without compromising liquidity.

How companies choose to segment cash will differ from one to the next based on their industry, strategic goals, and unique needs. For example, in industries where cash flow is seasonal, companies may choose to adjust their segmentation throughout the year. Companies seeking an acquisition or capital expenditure project might adjust their strategy to build up strategic cash reserves.

There are four primary types of cash balances – operating, reserve, strategic, and special-use – that each serve a distinct role in financial planning. Understanding the typical timeline, uses, volatility, and objectives of these balances helps align liquidity strategies with goals.

Operating Cash

Timeline: Less than three months

Uses: Operating cash supports the business' day-to-day activities. It covers payroll, vendor payments, lease obligations, debt service, inventory, and other routine disbursements. These obligations are predictable and frequent, so this segment is typically managed with a focus on accessibility and timing.

This process is also not static. Your organization might shift thresholds for operating cash during times of economic certainty, in a declining rate environment, or due to an economic shock.

Most organizations hold operating cash in low-risk instruments. Examples include demand deposit accounts, hybrid solutions, and interest checking accounts. The goal isn't necessarily yield – it's liquidity.

Volatility: High

Objectives: Segmenting operating cash improves short-term forecasting and working capital management. Keeping these funds separate ensures liquidity is available for routine obligations and prevents the misuse of reserve or long-term funds.

Reserve Cash

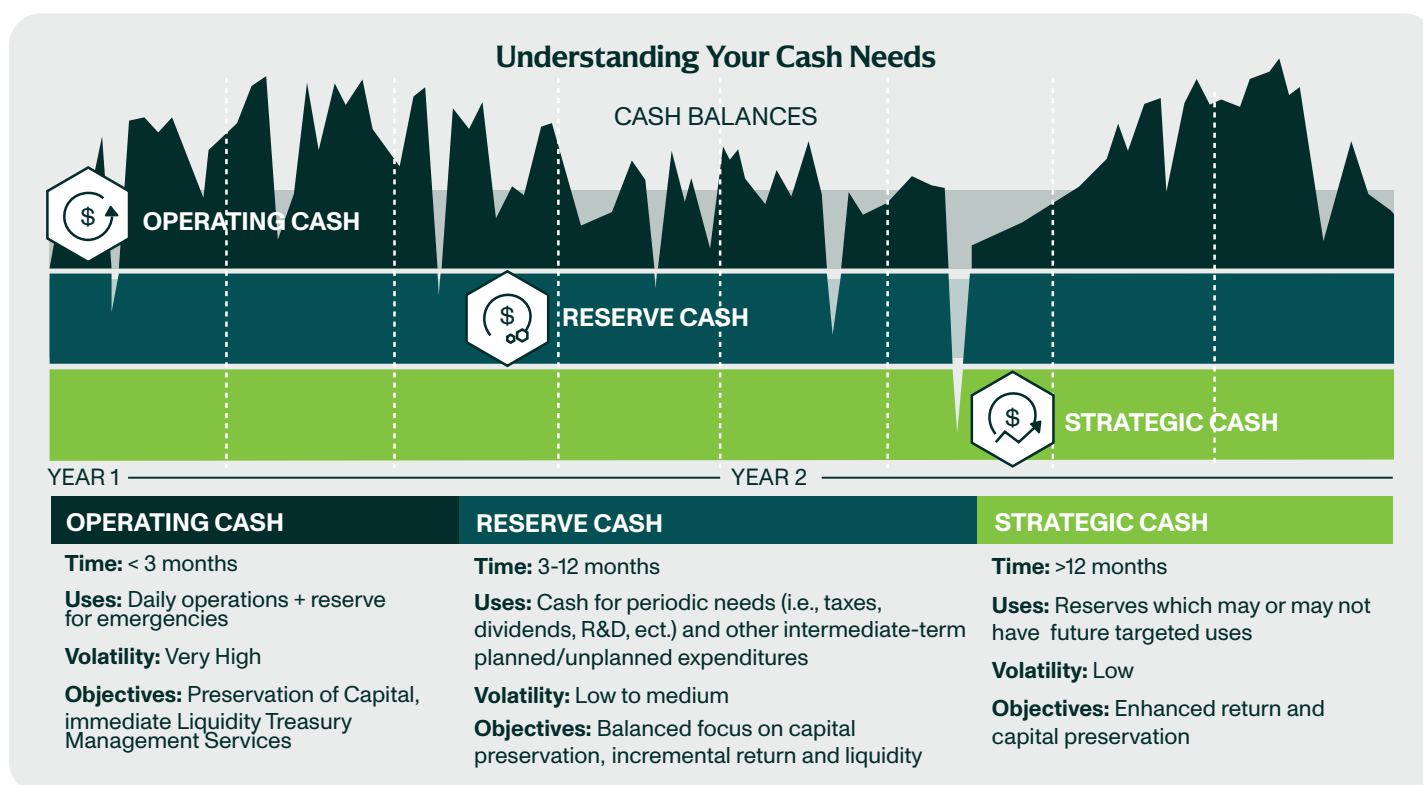
Timeline: Three to 12 months

Uses: Reserve cash is for periodic needs and other intermediate term planned or unplanned expenditures. These funds are not used in day-to-day operations but may be required on short notice for reasons such as delayed receivables, tax payments, or short-term disruptions. Reserve cash levels should reflect a business' risk profile and liquidity needs.

This segment is typically held in low-risk, short-duration instruments that provide same day or next-day liquidity. Examples include commercial money market deposit accounts (MMDA), sweep account solutions, FDIC insurance programs, money market mutual funds, and commercial paper/agency discount notes.

Volatility: Low to Medium

Objectives: Segmenting these funds helps protect reserves from being drawn into daily operations and creates a clear threshold for minimum liquidity. Some organizations tie this segment to 30-90 days of fixed operating costs, but the right level depends on business volatility, access to credit, and individual needs.





Special-use cash

Timeline: Three to 12 months

Uses: Special use cash includes funds that are restricted or designated for specific obligations, such as escrow balances or for collateral agreements. These funds are not discretionary and may be subject to audit or legal requirements. Segmentation helps maintain compliance and simplifies audit and financial reporting.

This segment is typically the most constrained. However, proper tracking prevents downstream issues and improves transparency across legal, finance, and compliance functions.

Volatility: Depends

Objectives: Segmenting special use cash ensures compliance with legal and contractual obligations and reduces the risk of accidental misuse. It also simplifies reporting, especially during financial reviews or audits. While these funds may sit idle, their investment should follow liquidity, risk, or duration restrictions.

Strategic Cash

Timeline: Greater than 12 months

Uses: Strategic cash is typically earmarked for planned initiatives, but reserves may not have future targeted uses. Examples include funds set aside for capital expenditures, acquisitions, share repurchase programs, or debt repayment. Gaining a clearer view into this segment allows for more precise capital planning and decision making and avoids miscalculation.

Depending on an organization's investment policy, this segment may be invested with a longer duration and higher-yield target, aligned to expected drawdown dates. Examples include bond funds, government & municipal bonds, agency bonds, corporate bonds, and managed solutions.

Volatility: Low

Objectives: Strategic funds can be mistaken for available working capital without segmentation, creating confusion or misalignment during capital planning. Separating these funds ensures they remain available for their intended use and supports more accurate scenario planning.

Connecting Segmentation to Forecasting and Investing

Once cash is segmented, forecasting becomes more structured. Each segment can be modeled on its own cycle – weekly for operating, quarterly for reserve, and event-based for strategic cash, and special-use cash. This approach produces a more accurate picture of liquidity needs and helps identify when excess cash may be available to invest.

Segmentation can also sharpen investment strategy. By tying each segment to its timing and purpose, treasury and finance teams can better match investment products to liquidity needs and improve yield without sacrificing access. It also supports stronger conversations with internal stakeholders about how funds are managed and what options exist for reinvestment, growth, or debt optimization.

The Role of Governance and Policy

Segmentation works best when it aligns with internal governance. While you don't need a new policy for each segment, defining thresholds, roles, and oversight keeps the process consistent.

Most organizations approach this by defining each segment's guidelines: target balances, approved investment types, and expected liquidity. These should be updated periodically as business needs change, which is why assigning accountability for each segment and its review process is essential.

If your organization already has a formal Cash Management Investment Policy Statement (IPS), segmentation acts as a bridge between policy and day-to-day execution. For those without a policy, cash segmentation can be a first step in building one.



Getting Started with or Enhancing Your Cash Segmentation

For most companies, the most challenging part of segmentation is getting started, or finding time to revisit. Fortunately, most already have the data needed to begin:

- Cash flow forecasts
- AP/AR timing
- Capital plans
- Bank account structures

Start by organizing cash into broad categories using current forecasts and actual balances. Many treasury teams begin with a simple monthly report that tracks balances by segment, then refine over time. What matters most is internal alignment on definitions and ownership. With that in place, the finance team can monitor changes in liquidity with more confidence and respond to needs quickly.



Put Cash Segmentation into Action

Segmentation cash is one of the most effective ways to improve visibility and control without adding complexity to liquidity management.


If you are interested in refining your approach or implementing segmentation for the first time, our Liquidity Strategies team can help. We consult with organizations to create cash segmentation strategies that fit their operating structure, growth plans, and risk profile without disrupting daily operations.

Ready to get started?

Contact our team to learn how cash segmentation can help you turn your cash position into a more powerful, decision-ready asset.



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