

Treasury outsourcing: a rewarding strategy

Web technology is steering the treasurer ever more towards more cost-effective outsourcing services, says Michael Roden of Global Treasury Services.

Treasury outsourcing is rapidly gaining momentum in Europe, having first appeared five years ago in the US. Combined with the use of new web-based technology, it is set to dramatically change the treasury function. In this article, we will look at the advantages of outsourcing, the methodology to use when selecting a provider and the likely long-term consequences.

What is treasury outsourcing?

The arrival of web-based treasury technology allows companies to outsource their treasury activities efficiently and safely, irrespective of the location of their operations. This is particularly useful for companies with subsidiaries in different geographic locations.

Treasurers have different options at their disposal. They can hire an application service provider (ASP), which supplies the technology needed to trade and takes care of all the back-office functions or, if they wish to fully exploit the advantages of treasury outsourcing, a business service provider (BSP).

A BSP will deliver all the functions offered by an ASP as well as all front office operations, giving treasurers maximum flexibility to decide the extent of the outsourcing.

The advantages of outsourcing

The main benefit of outsourcing treasury activity is the sizeable cost reduction across the entire range of treasury operations. This includes dealing, operational, reporting, accounting and risk management personnel, together with the entire IT infrastructure. The savings to a large multinational by aggressively pursuing outsourcing as a more effective way of managing its treasury function can literally run into several million pounds a year.

Even the smallest treasury operation needs a minimum of two operational members of staff to ensure there are

FIGURE 1

Look out for the hidden costs

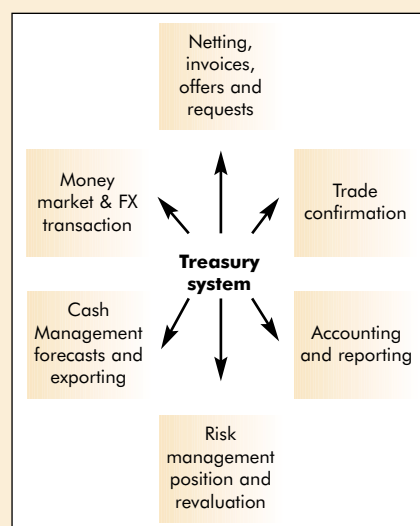
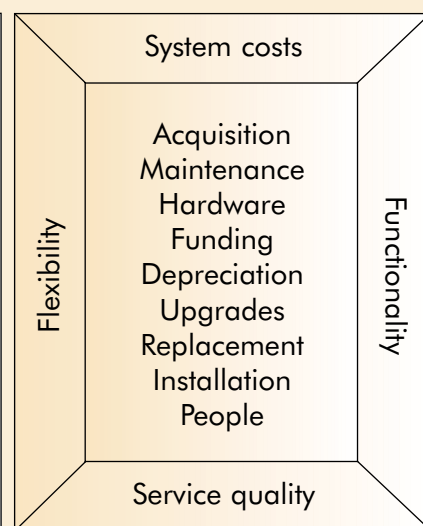


FIGURE 2

The key responsibilities of the treasurer



sufficient people to cover holiday and sickness leave.

The salary bill does not represent the full picture however. All too often companies ignore the hidden costs of running a system that has sufficient functionality to support the business, while allowing treasurers the necessary flexibility to react to a changing market

environment. Figure 1 illustrates the various cost categories associated with running a system that supports a relatively small number of users, with no external network connections. Outsourcing non-strategic elements of the treasury function also means that treasurers can focus on the main game, as outlined in Figure 2:



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- advising the board when considering any acquisition or divestment;
- actively participating in the strategic review of the business and the development of strategies aimed at ensuring the viability of the business; and
- ensuring the board is aware of all issues related to treasury, including those aspects that might not be immediately apparent to the other board members.

The arrival of web-based technology is the key to helping treasurers to add value. Electronic treasury is a reality

today. This provides the corporate community with instantaneous communications with their subsidiaries providing treasurers with almost real-time trade execution, risk and cash management, together with reporting, giving treasurers an unprecedented level of control over their organisation as a whole. Treasurers are able to view their company's operations 24 hours a day from anywhere in the world (Figure 3), which provides larger companies in particular with a radically improved level of control over their global operations.

Using a duly regulated outsourcing partner offers companies an excellent opportunity to benefit from this dramatically improved level of control without having to invest in expensive new technology. A professional outsourcing partner will free its clients of involvement in any of the time-consuming and costly issues surrounding system maintenance and upgrades.

How to outsource your activities

Outsourcing is a crucial step in a company's long-term strategy and should therefore benefit from the same level of due diligence as would apply in the case of an acquisition or divestment. To be successful, the outsourcing operation should be fully supported by the board, which are ultimately responsible for the successful outcome of the operation.

Selecting the right partner is critical. The preferred partner must have in-depth knowledge of both the treasury business and the systems issues associated with web-based service delivery.

BSP providers must have clearly separated front and back office operations.

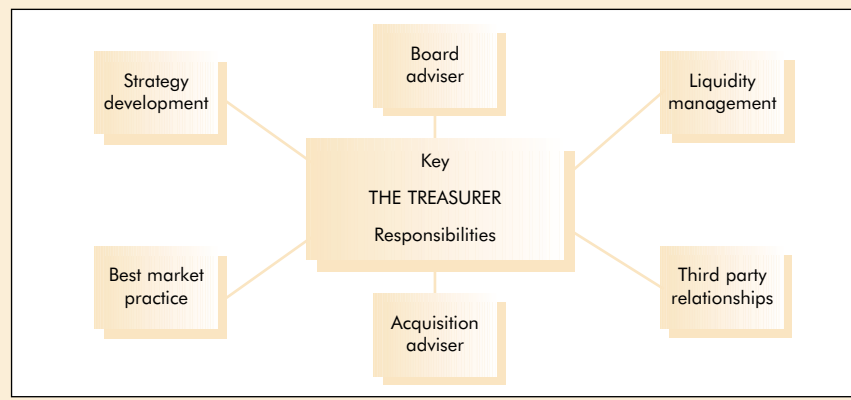
The outsourcing partner should be regulated and ideally be affiliated to a well-known and respected organisation to ensure that clients' deposits are never at risk, even if the chosen partner is only acting as an agent on the client's behalf.

Once the selection process is finalised, the treasurer will need to put in place clear and detailed control mechanisms. The following procedure will help ensure maximum transparency and efficiency:

- the treasurer needs to provide the relationship banks with detailed mandates, with each mandate clearly setting out the precise extent of the authorities delegated to the outsourcing partner, as well as a minimum notice period and liability clause;

FIGURE 3

E-treasury management



- when drawing up the contract, the outsourcing partner needs to be given written controls stipulating maximum loans to a given bank, maximum exposure to any currency, maximum amount of forward foreign exchange hedge by currency, overall limits on liquidity gaps and the use of derivatives; and
- it is also important the outsourcing partner's systems interface with the client's general ledger, so all accounting entries are passed automatically, and in real time.

If set up well, the arrangement should allow the outsourcing provider to function, as a quasi-department within the company, directly reporting to the group treasurer

Several banks provide outsourcing services. Companies might feel reassured by knowing that their treasury is in good hands. However, this reassurance comes at a high price.

Banks will inevitably try to impose their own products, methodologies and services on their clients, potentially depriving companies from choosing the most appropriate product at the best price.

Independent treasury outsourcing providers that are duly regulated and can rely on stable reference shareholders can offer companies a similar level of security. In addition, their services are tailored to meet the individual business requirements of their customer.

They do not force their clients to commit to a 'one size fits all' set of services and prices. The independent provider recognises and understands that the requirements of the corporate treasurer within the same industry are very different.

A new role for the treasurer

What are the long-term consequences of the twin arrival of outsourcing and e-treasury for the treasury function? As we have argued before, the role of the treasurer is primarily strategic in nature. He or she is first and foremost the internal adviser to the board.

Among the most senior line managers, treasurers are responsible for the day-to-day management of the company's liquidity. They will also ensure that the treasury unit follows 'best market practice' as well as manage the relationships with the company's relevant external advisors and bankers.

Traditionally, treasury has been considered, not least by treasurers, as a core area of business that could not be outsourced.

In practice, many treasurers already use outsourcing, be it external academic advice, fee-based software or global cash management bank services. However, it is the arrival of new web-enabled technology that has for the first time made large-scale outsourcing a viable option for forward-looking treasurers.

By taking on the non-strategic treasury tasks, and at the same time providing better controls, independent treasury outsourcing providers offer treasurers a real opportunity to focus on their main vocation: creating value for their shareholders. ■

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