

Business continuity planning and the treasurer

Ken Lillie of SunGard looks at how the treasury department should be a vital part business continuity planning.

Broadly, business continuity planning (BCP) is the process applied to ensure the continuation of a business through whatever challenging scenarios may arise. Treasury should, of course, be involved at all stages of this planning process, although many will have experienced those frustrating occasions when this has not been the case.

The seemingly disparate range of abilities essential to the make up of a successful treasurer must therefore include that of marketing manager. BCP cannot be applied effectively without the treasurer's full involvement. If not, it will be the treasury department that will have to pick up the pieces later in the day. So it is essential that the treasurer is able to promote the role of the department to all the other business areas successfully, with particular emphasis upon its contribution within a potential disaster situation.

Mitigating financial effects

There are many problem scenarios that treasury would be unable to foresee or be powerless to influence, but it would certainly help to mitigate the financial effects. Examples of this would be through the management of any resulting cash flow problems created by business-related failures, reducing the impact of adverse foreign exchange and interest rate movements created by international economic or political upheavals, or through managing the credit risk created, say, by a collapse in confidence in a particular banking market.

A key role of treasury on a day-to-day basis is, in any case, to manage treasury risk in a way that will reduce the company's exposure to adverse market movements. Similarly, any debt and/or investment portfolios should be managed to provide sufficient liquidity or funding headroom to meet planned

BCP cannot be applied effectively without the treasurer's full involvement

cash flow forecasts with a contingency allowed for a certain degree of deviation.

If business continuity is interrupted then there are certain critical tasks that may need to be undertaken by the treasurer and which would initially include:

- making an accurate and prompt assessment of the current situation and resulting treasury risk, and an informed opinion of potential developments;
- determining a course of action that would mitigate the effects of the problem; and
- mobilising the necessary resource to ensure the agreed required action could be executed.

There are certain eventualities where



Ken Lillie

the treasurer is powerless to take action to alleviate matters, for example where a particular trading market is closed down, and in these circumstances there may be little option but to run the risk. Nevertheless the situation can still be evaluated and studied on an ongoing basis to ensure that any damage-limitation opportunities are taken as soon as they may become available.

One of the key disciplines of business continuity is BCP project initiation and management. The task of the central planner here is to develop, organise and manage the project to a successful conclusion. Across all businesses there will be various planning methodologies that will need to be brought together to build a complete plan. The main three pieces of the planning jigsaw are:

- risk management;
- contingency planning; and
- disaster recovery.

Integral role

Treasurers are mainly experts in risk management and, as such, should play an integral role as part of the BCP project team. As part of the team, the treasurer will not only have input on risk identification, evaluation and control, but upon receiving an understanding of the potential risks and disaster scenarios identified, he will be able to modify treasury strategy where necessary and assess in advance the potential impact on this strategy should specific circumstances arise.

My past experience in the shipping industry demonstrated for me the range of circumstances where treasury involvement in the BCP process plays an important role.

For example, the negotiation of overseas shipbuilding contracts in foreign currency highlights foreign exchange risk – particularly if there is no natural business inflow of the

negotiated currency. It also clearly illustrates potential cash flow issues relating to delayed/accelerated stage payments and delayed business income from any deferred commissioning of the vessel, and market risk, interest rate risk and possible foreign exchange risk on the accompanying funding programme. In addition, there would be a business risk on the shipbuilder and the main sub-contracted suppliers as well as potential country risk.

From just this high-level view of risk within a particular project, it can be seen that certain scenarios in which treasury should have a natural involvement – from the very first negotiation of the shipbuilding contract – could have a big impact on the profitability of the company.

Therefore, the treasurer should be involved in both the formation of the BCP and in the continuing management and revision of the plan as business circumstances demand.

Issues specific to treasury

We have looked so far at the issues that could affect treasury, or could be influenced by treasury, but are created by other areas of the business.

For treasury to manage the resulting risk in an acceptable and timely manner (as far as possible, depending upon the magnitude of the impending disaster) we see that not only should the department be made aware of the identified areas of risk when originally included in the BCP, but also be notified of potential problems as early on as possible in the cycle.

There are certain treasury issues within BCP that accordingly should be under the control of the treasurer and for which there would need to be a plan in place. These would include:

- failure or complete breakdown of the treasury management system (TMS);
- failure of electronic banking and other treasury software; and
- absence of treasury-critical staff in risk management, dealing and back office processing disciplines.

The ramifications of 'rogue' dealing or dealing that may have breached limits, clearly incorporates issues of system and dealing controls but would also fall as part of the treasurer's responsibility. These should be addressed in the BCP process.

The TMS
should provide
up-to-date
management
information on
positions and levels
of risk, which
should be available
to senior
management

If it is the treasurer's job to manage the risk, then it is an encumbrance upon him to ensure that the team and the systems employed are continually up to the mark, for here lies a further business risk. Efficient treasury management reporting is the key.

The systems in place should be able to show, on an actual or near real-time basis, an accurate picture of the treasury risk and positions of the company at the point of 'disaster'. Only then can a swift and effective response be made.

An essential part of BCP is therefore to ensure that a TMS capable of delivering the necessary reporting and control is fully implemented.

Other BCP aspects

Similarly, the treasury team must be of sufficient professional ability and must also be available. Treasury is about managing risk, investing surplus funds, managing debt portfolios and so forth, and this activity is potentially subject to unpredicted shifts sufficient in magnitude to be incorporated into the group BCP. Through hedging, limiting and spreading treasury risk by applying strategies approved within a formal treasury policy and procedures document, the treasurer is able to maintain a considerable level of control.

It is the limitations or additional risk imposed upon the treasurer through business influences that are outside of his immediate control (such as country groups of business operation and 'political' restrictions on counter parties imposed by the board) that will necessitate specific contingency planning.

Of particular concern to the larger treasuries, although not to the

exclusion of the smaller units, would be to ensure emergency response and operations procedures (another key discipline of BCP) are in place.

The risk of failure of electronic banking software should be fully addressed and, of course, the ultimate need to establish and manage an emergency 'treasury disaster recovery' centre at an alternative site may be crucial.

The treasury department usually manages those important relationships between the company and its key financial partners.

A crisis situation can quickly escalate and so through a judicious application of public relations skill by the treasurer and CFO, there is every chance that relationships with the key counterparty and house banks can be managed to ensure that confidence is maintained.

What are the issues specific to treasury systems?

Within BCP there are various issues relating to the application of treasury systems, including:

- how should treasury systems be applied to assist in the successful management of a crisis situation;
- what happens if the systems 'go down' and therefore create the crisis; and
- what are the security issues of an internet application?

The first question has already been addressed as a treasury-specific issue. A TMS should be implemented and fully supported by staff trained to obtain optimum benefit from the software. The system should provide up to date management information on positions and levels of risk, which should be also readily available to senior management.

The TMS may be linked to other applications used within treasury to compile up to date position/forecast information, and these links will need to be capable of delivering speedy information in a business critical situation.

In addition, a link into market information software will enable an immediate import of current market prices to revalue existing positions in advance of any necessary remedial action. The risk analysis tools provided by the TMS are obviously going to be

crucial at this stage as various revaluations and possible scenarios are reviewed. Although the calculations may be complex, the system should deliver the positions and analyses efficiently and in a format that can be readily assimilated by management to allow fast responses.

The potential total failure of any business-critical system within the treasury environment is clearly a big concern.

This may be through a failure within the software itself, in which case there should be in place a maintenance and support section within the licence agreement with the software supplier, which contains an escalation clause determining the correct level of response. This may range from 'low', with a solution delivered within, say, 120 days, through to 'medium', 'high' and 'urgent to critical', in circumstances where there is a

The treasurer
should be involved
at all levels of the
BCP process – from
the initial plan
construction
through to receiving
and providing
critical information

certainty of financial loss demanding an immediate response and solution.

A TMS will run most efficiently and securely on a software and hardware set up recommended by or agreed to by the supplier. It is also strongly recommended that as the system is upgraded and its use expanded within

the company that the technical environment also be reviewed with the supplier to ensure an additional level of operational risk is not being adopted.

Although BCP will touch and involve treasury and its various system applications in many more ways than have been outlined in this brief article, it remains clear that the treasurer should be involved at all levels of the BCP process – from the initial plan construction through to receiving and providing critical information to ensure timely and effective action is taken. To not involve treasury at every level could turn out to be the largest risk of all. ■

Ken Lillie is Principal Business Consultant, SunGard Treasury Consulting.

KenLillie@treasury.sungard.com
www.sungardtreasury.com