The ideal partnership?

The treasurer's job is getting more difficult. As companies focus on integrated risk management the treasurer's performance is more closely benchmarked, his decisions have to be backed by closely reasoned analysis. This is good news for the treasurer, who is more visible in the organisation, better paid and has a more rewarding job. But it comes at a price.

That price is the need for the treasurer to be better educated and trained and his department better resourced, particularly in the mathematics of risk and financial markets. Sound assessments of future outcomes become essential, not just in a single business area, but across the whole organisation. In making these assessments the treasurer needs to know how to get the best value from his team and external advisers who may be in short supply and expensive.

An approach that is coming into favour with larger organisations is to employ a qualified actuary as a central resource to several departments, but particularly to treasury. How should the treasurer use this resource?

> Treasurers and actuaries working together should be trained together

Today, with the assets and liabilities of the pension scheme coming on to the parent company balance sheet, the need for an integrated risk assessment of the combined future cash flows of the pension fund and group is essential. Involving an in-house actuary in the assessment process would be an obvious way to tackle the problem. The broader issue of pension fund equity investment also needs to be explored. Can a company afford the additional cash lock-up in a pension fund required by a falling equity market driven by a recession that is also affecting the group's operating performance?

Actuaries' experience with statistical correlations makes their skills essential in looking more closely at a group's exposures across foreign currencies, interest rates, commodity prices, inflation and many other treasury related areas. In any attempt to achieve a group integrated risk assessment, the analysis of past performance to gain a measure of future performance volatility is vital. It is also core to the actuary's art and central to the treasurer's needs.

When implementing risk management solutions the need for an actuary's input is evident. Many groups are looking again at their approach to using insurance products. A key issue is how much risk to self-insure and how much to put to the market. When self-insuring, the expected cash outflow from a rise in the deductible element of an insurance claim may not be covered by the increase in cash inflow from lower premium payments, even in the long term. Even if there is an expected saving, the maximum likely cash outflow from an immediate risk event may not be able to be financed until reversed by future premium savings.

The closer benchmarking of a treasury department's performance, and the much greater analysis of financial instruments needed to achieve hedge accounting treatment, is making treasurers rethink hedging techniques. The case for using options is still strong, but needs to be closely argued through an examination of the assumed volatility of the option's underlying variable. In any transaction which involves the quantification of the impact from volatility the actuary will have a valid input – treasurers are not the only ones who have to tackle 'the greeks'.

In the future there will be opportunities for actuaries and treasurers to work together, and this should lead to opportunities for them to be trained together. In this way the mutual respect and understanding, by each for the other's professional ability, will grow. Oceanus believes that the two professional bodies should take this as a common goal in our developing relationship aimed at creating the ideal partnership. ■

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