Phoenix rising

AFTER TWO DECADES IN THE UTILITIES SECTOR, ALISON STEVENS TOOK ON THE CHALLENGE OF BUILDING A DEDICATED TREASURY FUNCTION AT LIFE ASSURANCE GROUP PHOENIX. SHE EXPLAINS WHAT HAPPENED TO **GRAHAM BUCK**.

The year began with Occupy London protesters still ensconced in the courtyard of St Paul's Cathedral and on the doorstep of Juxon House, part of the redesigned Paternoster Square. The building houses Phoenix Group, which is now the UK's largest consolidator of closed life assurance funds. The group's name dates back as far as 1782 when Phoenix Assurance was established, but more recently it has been known as Pearl Group. After a series of acquisitions, the Phoenix name was revived in 2010 when the group achieved a London Stock Exchange listing and FTSE 250 membership.

Like its neighbours camped outside the cathedral, Phoenix made news in 2011. In November reports suggested that insurance takeover specialist Resolution was about to make a £1.2bn bid for the group. No deal was reached but other potential suitors, including CVC Capital Partners, remain interested in Phoenix.

Despite these discussions, the group's deputy treasurer Alison Stevens, who joined Phoenix from National Grid last March, is working to streamline and strengthen its treasury operations.

"As Pearl, the group was under private equity ownership and went through some challenging times over the period before I joined, forcing a restructuring of its debt load," she explains. "However, since Rashmin Shah became group treasurer in July 2010, Phoenix's relationships with the banks have significantly improved.

"Until then, the group had lacked a dedicated treasury department. Even now we are still building the function as some parts of treasury activity are still covered by other parts of the group. There are now three of us in the team, so we can't change things overnight, although we are steadily putting treasury structures in place."

Like many of her peers, Stevens did not begin her career in treasury. "After graduation, I joined British Gas's operational research department in 1990, which solved management problems through the use of mathematical models," she recalls. The post took her to Birmingham for three years.

As she was considering various options for her first move, a position in the company's treasury department came up. "As the post was on secondment it gave me the opportunity to try something new but also to return to my original role should I wish to. So I moved to London to join the money market desk, which was part of the group's large and very active treasury department. Over a period of 18 months I got involved in FX and the full range of money market activities as well as risk analysis, which persuaded me to stay on in treasury once my secondment was over."

Next stop, in 1995, was with the company's three-strong capital markets team. Stevens spent three years in this role, during which time British Gas demerged to form two separate companies – Centrica, which took over gas sales and gas trading, and BG, the new parent for overseas operations and UK gas transmission.

BG's capital markets team had by now expanded to five employees and moved to Reading. A second demerger in 2000 saw Lattice Group separated from BG, taking with it ownership of assets such as UK gas transporter Transco, engineering and consultancy specialist Advantica, property and transport companies. "The Lattice operations were where most of the capital debt resided," explains Stevens. "I moved back to London with three colleagues and took on responsibility for managing the Lattice capital markets team."

The team was enlarged two years later when Lattice combined with National Grid to form National Grid Transco, subsequently reverting to the name National Grid. The enlarged group became regularly active in the capital markets to fund acquisitions.

"The group typically carried out several capital markets deals a year and completed as many as 40 in one year through a mixture of benchmark deals and private placements. It was also active in interest rate risk management, completing hundreds of derivatives deals," says Stevens.

A DIFFERENT KIND OF CHALLENGE By the time she left the group in March 2011, National Grid's capital markets team was handling more than £20bn of debt. The attractions of career progression and exposure to a completely new sector persuaded her to move to life assurance. "It was a good time to try something different," she says. "Phoenix is very different from National Grid, so there was much to learn. It's also in a very different part of the credit spectrum from National Grid, which was well established, stable and enjoyed an investment-grade credit rating. Although Phoenix has £68bn of assets under management, the group itself is much smaller, comes from private equity ownership and currently does not have a credit rating."

She adds that the group is focused on debt reduction. "The general climate has changed regarding the amount of leverage companies can comfortably live with."

Having enjoyed strong banking relationships at National Grid, she wants the same for Phoenix. "We've issued a couple of hybrid bonds, but the majority of our financing comes from the banks. Our loans are due to mature between 2014 and 2016, so we're looking to

refinance them before then. However, my first task on joining the group was to review our capital structure and financing strategy to decide how best to develop them. We've looked at how to embed our relationship banking framework, and we have developed broad banking relationships that also include ancillary business."

Much of this business resides in the management of Phoenix's life assurance portfolio. Currently its Ignis division manages these assets along with the group's sterling liquidity fund. Stevens says this generates potential business for the banks in the form of derivatives activity, and treasury aims to get additional ISDA agreements in place so the relationship banks can quote for it.

Other plans include more centralised coordination of treasury activities. "While a major chunk of our cash management is handled in-house, some activity is still outsourced and back-office operations are part of finance operations rather than treasury."

Stevens says the group holding companies are keeping increasing levels of cash, so placing it in a more diversified way and improving the returns has been a priority. "We achieved a noticeable improvement during 2011 and are looking to build on it. We've been looking at other available accounts and different ways of depositing with the banks."

FINANCIAL SKILLS One strength that Stevens has noted at Phoenix is its breadth of financial expertise – "both in Ignis and Phoenix Life, whose staff is made up of actuaries and individuals familiar with financial instruments such as gilts and duration matching. Treasury isn't regarded as the sole centre of market expertise."

Outside of the day job she has lent her expertise and experience to the ACT, serving on its policy and technical committee for the past four years and on its council since 2010. "I took the ACT exams in 2006 and they've stood me in good stead. When Phoenix advertised my job they stressed they were seeking an MCT-qualified candidate.

"In addition to knowledge gained from the exams, the ability to network with other treasurers while attending special events such as the recent session on Basel III has been very useful. I'm also keen to find out more about the new rules on exchange-traded derivatives."

While Basel III's impact on the banks will affect the group, Solvency II is potentially of greater significance and will influence how Phoenix structures capital and the balance sheet. Its requirements are still evolving, including the "grandfathering" provisions that will determine the treatment of the company's existing hybrid debt instruments.

For the moment, Stevens is reserving judgment on Solvency II, which has attracted criticism that while its intentions may be laudable its implementation and impact haven't been considered carefully enough.

At least the company has a degree of protection from the chill economic winds affecting sectors such as retail and construction. "As Phoenix is a closed life fund we don't market to new customers, although our portfolio of assets is still influenced by the performance of the markets," Stevens says. "We've responded by carrying out a certain amount of derisking, such as reducing our dependence on equities and taking action to reduce our risk profile. Markets remain uncertain and it's not clear how long these conditions are likely to continue."

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Quick-fire quotes

WORDS YOU MOST OFTEN SAY TO YOUR CFO: "Taking the low-risk course of action…."

WORDS YOU MOST OFTEN SAY TO YOUR TEAM: "We're getting somewhere with this now."

DOES RECESSION OR GROWTH LIE AHEAD? Further recession before growth.

DEBT OR EQUITY? As an insurer – hybrid.

FIXED OR FLOATING INTEREST RATE? Horses for courses, but in a word "floating".

BIGGEST SUCCESS IN YOUR CAREER? Debt-financing the $7.3bn acquisition of Keyspan for National Grid.

DEAL YOU ARE MOST PROUD OF? $1bn SEC-registered bond for National Grid in 2006.

MOST VALUABLE PART OF THE ACT QUALIFICATIONS? A boost to the CV plus a comprehensive treasury education.

REASON FOR ATTENDING ACT CONFERENCE/EVENTS? Keeping up to date with treasury hot topics, and networking.

GADGET THAT'S ALWAYS WITH YOU? BlackBerry – good keypad and stays charged up for days.