THE PROOF IS IN THE PROVIDER

IN JUNE 2001 ACORDIS STARTED IMPLEMENTING THE OUTSOURCING OF THE TRANSACTIONAL SIDE OF ITS TREASURY DEPARTMENT. A COUPLE OF YEARS ON AND GROUP TREASURER **TERI BARLOW** RECKONS IT IS ONE OF HER BETTER DECISIONS.

When asked to do an article on outsourcing for *The Treasurer* this time last year we were in the throes of implementation so I had to limit my contribution to a few behind the scenes comments. A year later, I argued that the case was now too well known and too much in the public domain for anyone to want to read about it again. But then I thought, instead of writing a case study, why not give a personal view? So this is what this article is intended to be.

Acordis Group Treasury has outsourced the entirety of its transactional side of treasury (front, mid and back office) while retaining all strategic, policy and advisory aspects of its role. The boxouts in this article show a summary of our treasury's stance regarding risk and what functions are centralised, as opposed to decentralised, together with details of what has been outsourced and what we have retained in-house.

BUSINESS DECISION. The reason we decided to go down this route, put simply, was that treasury had a business problem for which it needed to find a business solution. The Group was going through a period of rapid change and restructuring. Furthermore, all central (corporate) departments were under pressure to reduce their headcount. However, treasury is a service unit, so I was concerned about our ability to continue to provide a service, to both the Board and the business units worldwide, that was consistent, flexible, sustainable, efficient and cost-effective.

It is important to note here that, while cost reduction was not the main objective, cost-effectiveness certainly was. We were also at a point in time when we needed to upgrade our treasury management system (TMS) by creating additional interfaces to achieve straight-through processing (STP) savings.

The project started in June 2001 (triggered by the Spotlight feature in *The Treasurer*) and implementation was complete by 1 July 2002. This timeline is relevant, in that it leads to the first personal comment: we were aware that, as a centralised treasury, we were one of the first to look seriously at outsourcing a key part of its own function. However, we felt that, while being ahead of the game, we were probably only six (maximum 12) months ahead of other treasuries looking at the topic seriously/carrying out feasibility studies and the like. Nearly two years on (I am writing this in late April 2003), providers are just beginning to see real activity in this area. I understand that currently a number of big names are now talking to providers and carrying out studies. Hence, the amount of interest our project seems to have aroused. Perhaps this is because we have been willing to talk and/or write about it publicly, but it has provoked some interesting reactions and highlighted some misconceptions in both the treasury and banking worlds.

TREASURY DRIVEN. The first reaction – based on rumours as to what I was up to this time – was that I was "betraying" my profession. Those who know me will be aware of my passion for treasury and, I trust, would not believe that I would ever knowingly do such a thing. Far from it, I see a move towards analysing what a treasury department does, stripping out the non-value-added 'factory-type' processes and outsourcing them to a shared services environment, as being inevitable. This then concentrates remaining treasury resources on value-added functions, including, for instance, a move into working capital management and the development of shared services in other areas such as payables and receivables, which I see as being the next logical step in the development of our profession.

The next interesting reaction is that "turkeys don't vote for Christmas". Well, no they don't. But, if I am a turkey, I want a vote. In other words, if more boards are going to charge the CFO – who in turn will charge the treasurer – with the task of looking seriously at outsourcing I want to be in charge of my own destiny. I would also like to have put it forward as an area to be considered and to be in control of the timing, rather than to have the task thrust upon me, with a timeframe dictated by others. There is no doubt that to carry out due diligence and a feasibility study are essential first

What has its treasury done and why?

Currently privately owned, Acordis is a multi-national chemicals and man-made fibres group, with a turnover of around €1.6bn and employing about 9,400 staff). It was formed by combining two groups of fibres companies (one formerly owned by Courtaulds and the other by Akzo Nobel) following the takeover of the former by the latter.

The former Courtaulds treasury unit then formed the basis of treasury for Acordis – there is a direct line in that I have just completed 21 years with Courtaulds/Acordis and James Wrangham (whom many of you will know) is still actively involved and worked very closely with me on the outsourcing project.

steps, but these could appear to be luxuries to non-treasury oriented members of the board.

Then there is the question of what you do or do not outsource. The perception seems to be that outsourcing is 'all or nothing'. However, despite what Acordis has done (that is, 'all'), this does not have to be the case. Concentrating on the transactional side for the moment, treasury can be broken down into a series of modules:

- debt and borrowing;
- investments;
- cash management;
- foreign exchange;
- netting;
- inter-company loans;
- back office (confirmations and settlements);
- accounting; and
- reporting.

These modules also apply to outsourcing.

There is also the impression that outsourcing is new. It is not. It has been around since the early 1990s. The history goes back to the Dublin Docks scheme and the development of companies in the International Financial Services Centre (IFSC). This led to the providers (mainly banks) building up a workforce and expertise able to support various specific requirements, such as investment portfolios, netting, inter-company loans and the like. Many of the IFSC customer companies needed only one or two services, usually combined with company secretarial and accounting functions. The next stage, in the early 1990s, was the recognition that this skill base could be useful to other customers – particularly at that time for US companies acquiring businesses in Europe and needing to set up a regional treasury. Therefore, given this background, there are currently more examples of treasuries having outsourced one or two modules than several (as we have).

DEAL WITH YOUR OWN BANKS. Another perception is that, if the outsource provider is a bank or the subsidiary of a bank, all treasury transactions have to be placed with the bank concerned. This is not the case either. Deals can be transacted in your name by the outsource provider with your chosen counterparty banks against your agreed internal and/or external limits. However, it is imperative that this is clearly stated in the request for proposal (RFP) and at initial meetings so that responses/tenders are made on the same basis. This is also an important element in managing your relationships with other banks through the outsourcing process, since the assurance that they will still get the same opportunities to bid for your transactional business is a great comfort to those either not in the outsource market or whose responses to the outsource RFP are not successful.

Finally, there is the question of controls. The major negative perception about treasury outsourcing is that you are opening up an additional area of risk, that treasury (and therefore the company) will lose control of a major (and potentially risky) set of transactions. Again, this is a false perception, because, if anything, outsourcing can be a way of improving controls. What the outsource provider does and how it carries it out is typically governed by an agency agreement combined with a set of operating guidelines.

The agency agreement would, of course, incorporate liability language, which means if the outsource provider operates within the guidelines, you are liable – but may need to make an urgent

Acordis treasury policies

Risk	– risk averse
Debt	– centralised
Liquidity	– centralised
FX policy	– centralised
FX exposure management	– decentralised (business units)
FX/CO transactions	– centralised (internal units + treasury, external treasury + banks)
Treasury transactions	– cash settled (internal and external)
Cash management	– centralised
Sales ledgers/collections	– decentralised (business units)
Purchase ledgers/payments	– decentralised (business units)
Netting (settlement of inter-group trade)	– cash settled through netting centre
Inter-company loans	– limited (mainly zero balancing account (ZBA) cash pools)

What has been outsourced?

All transactions in the name of Acordis Beheer BV (treasury division) including front, middle and back office, that is:

- Acting as the 'dealing room' for internal and external foreign exchange transactions, including currency options (dealing, pricing and position keeping)
- Acting as the 'netting centre'
- Managing treasury division bank accounts (including reconciliation)
- Overall and local cash pool management
- Administering the Group's bilateral facilities (partial)
- Interest rate hedging (administering existing transactions, dealing)
- Administering some inter-company loans
- Confirming all of the above
- Settling all of the above
- Accounting for all the above
- Reporting on all the above

What has been retained?

- Policy
- Strategy
- Advising the businesses
- Advising the Board of Management
- Financing decisions
- Negotiation of all financing, bank charges, interest rate structures etc
- Bank relationship management
- Bank account and cash management structure management
- Writing (and amending) the operating guidelines for the outsource provider
- Overseeing and formally reviewing the outsourced services

amendment to the guidelines – but if they deviate from or breach the guidelines, they are liable. This makes the writing of the guidelines (from our experience, something that is best done towards the end of the implementation phase) an absolutely key part of the whole process and structure. They must cover everything in sufficient detail, but not necessarily down to procedural level, and be easy to read and clear. Above all, both parties need to believe in them, not just sign them off.

A sub-text of the controls issue is that of management. How do you ensure the outsourcing is properly managed and therefore that the outsource provider is managing things properly on your behalf? Obviously, it depends on what you have outsourced, what it replaced and how that was managed previously. In our case, the overall management of treasury remains in-house and managing the outsourced service is a key part of my role as Group Treasurer.

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On the practical side, you are likely to need more frequent reports than when provision was in-house, otherwise you will lose the feel for what is being transacted in your name. Holding regular meetings is a must to keep everybody up to date, and the relationship must be open and interactive, so there is likely to be a lot of dialogue by email or telephone. Regular internal audits are also essential – you may wish to extend their scope and increase their frequency – and future external audits will cover the outsource provider. None of this is new. It is the emphasis that changes (that is, a difference of degree, not kind).

OBSERVATIONS. Treasury outsourcing is here now and needs to be taken seriously. For some businesses, it may not be a long-term solution (say, for a business undergoing a rapid period of change), but it can be reversed. Some new providers will come into the market and some of the existing ones will go but you can switch providers. There are a number of arguments that can be put forward in the banks versus independents debate, but the inability to continue to place your treasury transactions with your preferred counterparties is not one of them.

So, do I stand by our business decision for us at the time? Would I do it all again? Yes, most definitely.

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