

# LESSENING THE WORK LOAD



TREASURY OUTSOURCING IS BECOMING AN INCREASINGLY IMPORTANT OPTION FOR TREASURERS, BUT IT IS NOT JUST ABOUT CUTTING COSTS, AS **JACK LARGE** OF J&W ASSOCIATES DISCOVERS.

Over the past 12 months, the increasing acceptance of the benefits of corporate treasury outsourcing by treasurers and finance directors, and the maturing services from suppliers, have led to a continuing steady growth in the market. However, there has not been the big surge in demand that many were expecting. In the current difficult financial environment, outsourcing services that provide medium- to long-term solutions to specific problems are not the quick cost-cutting fix businesses are looking for.

But outsourcing is not just about cutting costs. An unexpected or unmanageable increase in work load, typically through a merger or takeover of another organisation, can lead to companies to look for help from outside. This is happening less at the moment, so the demand for corporate treasury outsourcing services is not growing as rapidly as it might in more positive economic conditions.

**GOOD REASONS TO OUTSOURCE.** The main reasons companies outsource corporate treasury are to:

- meet major new demand on a corporate treasury department which does not have the resources readily available internally;
- reduce operational risks, for example, of key members of staff leaving or system breakdown;
- upgrade treasury controls and procedures to achieve best practice in a department or process;
- replace or upgrade internal corporate treasury systems; and
- reduce or control costs and improve efficiency.

Over the past couple of years the suppliers have begun to expand the range and depth of their services (see *Figure 1*). Citibank has added treasury system outsourcing to its range of services, JPMorgan is developing financial supply chain-based services and both The Royal Bank of Scotland and FTI are extending services to provide more dynamic value-added support.

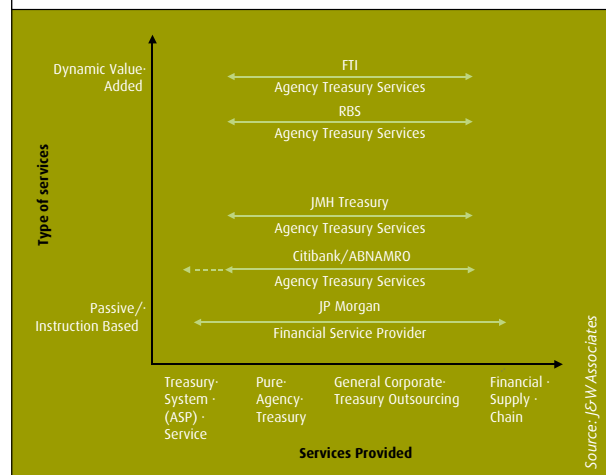
This article reviews the treasury system outsourcing services, also known as application service providers (ASPs) and the agency treasury services currently available. The leading suppliers were

sent questionnaires covering the main areas of their services and follow-up discussions were held with most of the respondents.

**TREASURY SYSTEM OUTSOURCING SERVICES.** Corporate treasury system suppliers are the main providers of treasury system outsourcing services. This survey reviews the services on offer from Alterna, Financial Sciences, Richmond Software, SunGard and Tietoenator. The same elements are reviewed as in last year's survey (see *The Treasurer*, April 2002) and include:

- when the system went live;
- service structure;
- functionality;
- system infrastructure and security; and
- charges.

**FIGURE 1**  
CORPORATE TREASURY OUTSOURCING SERVICES PROVIDED AND TYPES OF SERVICE.



The full results from the questionnaires are given in *Table 1*. The main findings are:

- all the suppliers now offer a substantial range of functionality and support;
- all offer a similar range of cash, debt and investment management functionality;
- the main differences in functionality occur in the foreign exchange, risk management and accounting areas;
- all use the internet for delivery and have considerable disaster recovery facilities; and
- charges vary considerably, with most having some level of set up fees and an annual service charge, almost all a per user charge, some a per module charge and a few a per transaction charge.

Treasury system outsourcing suppliers are reporting growing demand from medium-sized corporate treasury departments which are beginning to understand the full costs of running a

corporate treasury system within their department. But even very large treasury departments are now outsourcing their systems, as shown by Ford Europe's contract with Financial Sciences last year. The common driver is to cut costs and time taken running and supporting treasury technology and systems.

**KEEPING COSTS DOWN.** Three major corporate treasury system suppliers are now finding that more than 20% of their prospective customers are looking for a treasury system outsourcing solution rather than buying a full system, which is a major change from a year ago. The main demand is from medium-sized corporate treasury departments which are happy to accept a pre-packaged treasury management system (TMS) solution rather than make the heavy up-front investment in a full system. They prefer the lower monthly cost and the considerably lower implementation risk. SunGard and other suppliers offer a three-month trial with no penalty fee for terminating the agreement to encourage corporate treasury departments to try their services.

Supplier	Alterna Technologies Group Inc	Financial Sciences Corporation
Service name	alternaSSC	ATOM
Date operational	June 2000	February 1991
<b>Service structure</b>		
<b>Modular</b>	Yes	Yes
<b>Modules available/structure</b>	Cash optimiser, in-house bank, treasury/netting, compliance	Debt, investments, foreign exchange, derivatives, cash, inter-company loans
<b>No. of Users Allowed</b>	Unlimited	Unlimited
<b>System functionality</b>		
<b>Cash management</b>	Straight-through processing, connectivity, forecasting, commercial transactions, netting	Disbursements and receipts by affiliates, concentration
<b>Debt management</b>	All major instrument types	All short-term, long-term and structured debt
<b>Investment management</b>	All major instrument types	All types of fixed income securities
<b>Risk management</b>	All major instrument types	Spot/forward and swaps
<b>FX management</b>	Integration with third party	Mark-to-market of all securities and derivatives
<b>Accounting</b>	Internal sub-ledger multi-entity, multi-currency interface	General ledger entries created for all transactions
<b>System infrastructure</b>		
<b>Delivery system</b>	Internet, extranet	Internet application service provider or in-house
<b>Hardware and software Required</b>	Only standard browser required	PCs for users; UNIX backoffice
<b>User security</b>	UserID, password + RSA tokens	Application and Db security
<b>Backup and disaster recovery</b>	Fully tested, SysTrust cert.	Two data centres, global network
<b>Application service provider operated by:</b>	Alterna Technologies Group Inc	In-house or by vendor
<b>Charges</b>		
<b>Set up fees</b>	No	Yes
<b>Level</b>		Start at \$100k
<b>Overall service charge</b>	Yes	Yes
<b>Level</b>	Contact vendor	Based on users
<b>Module charges</b>	No	No
<b>Level</b>		
<b>Transaction charges</b>	Yes	No
<b>Level</b>	Contact vendor	
<b>User Charges</b>	Yes	Yes
<b>Level</b>	Contact vendor	Fee per user
<b>File uploading charges</b>	No	No
<b>Other charges</b>	Interface Maintenance	
<b>Contact</b>		
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**'SUPPLIERS ARE REPORTING GROWING DEMAND FROM MEDIUM-SIZED CORPORATE TREASURY DEPARTMENTS WHICH ARE BEGINNING TO UNDERSTAND THE FULL COSTS OF RUNNING A CORPORATE TREASURY SYSTEM'**

Suppliers tend to provide standardised packages. SunGard offers a pre-configured version of its Quantum system through the internet to provide core cash and treasury management with a set of commonly used reports. Two medium-sized corporate treasury departments in the UK and a pension fund in Germany use this service. The TreasuryPortal Limited service from Richmond Software has around 15 users in Europe. TreasuryPortal's users vary from companies with £100m annual turnover to companies with more than £4bn annual turnover.

**SUPPORT LINE.** Another type of treasury system outsourcing is support for a corporate treasury department's systems. Nordic Financial Systems ([www.nfs.se](http://www.nfs.se)) offers 24-hour support from its help desks in Europe and Singapore. The company also provides development support to help corporate treasury departments improve the efficiency of their operations and workflow. Large companies such as ABB, Ericsson and Electrolux are using this service. >>

TreasuryPortal Limited	SunGard Treasury Systems	Tietoanator
TreasuryPortal June 2001	AvantGard ASP™ October 2002	SYSTEM10 ASP October 2001
Yes Cash management, risk management, deal capture and accounting No limit	Yes Trade capture, accounting (IAS 39), risk & eTX-based cash  Unlimited	Yes  Unlimited
BBR, reconciliations, liquidity, netting, guarantees, money market funds and forecasting Facilities, inter company and external Cash and paper Yes swaps/options/swaptions/FRA's etc VaR, Greeks, Portfolio and What-if  Multiple currency, entity and format	eTX-based bank information, cash worksheet, reconciliations, EFT, inquiry/reports Positions, forecasts, int. expense/amort. calcs, inq/reports Positions, forecasts, int. earned/amort. calcs, inq/reports Positions, forecasts, int. earned/amort. calcs, inq/reports Pricing, sensitivity & hedge performance  Rules-based ledger including IAS 39 with GL export	Settlement, netting, call accounts, cashpools, forecasts, reconciliation All instruments, admin, online, risk & cash mgmt. are covered All instruments, admin, online, risk & cash mgmt. are covered All instruments, admin, online, risk & cash mgmt. are covered Mark-to-market for all instruments, What-if & Sensitivity analysis, VaR Multi Cur, GL Interface, FAS 133 &138, IAS 39, GL
Internet  Minimum Yes Yes NuNet/RSL	Internet  Internet connection/browser Encryption, multi-level SunGard's extensive network SunGard Treasury Systems	Either using a third-party remote control product (that is, MS Terminal Server or Citrix WinFram), or running remote clients using DCOM over an intranet MS Windows NT or Windows 2000 BS7799:1999, BS627799, VPN See above Tietoanator Group, Network and Processing
Yes Yes Yes Yes Yes Yes	Yes \$5,000 and up Yes \$5,000 and up Yes \$1,500 and up No Apply to supplier Yes Beyond three users No	Yes €15,000 Yes Yes No Yes €1,500 No Communication cost
<a href="mailto:sales@treasuryportal.com">sales@treasuryportal.com</a>	Colin McDonald London +44-20-7484 7014	M Johansson Malmö, Sweden +46-40-6644097 <a href="mailto:system10.sales@tietoanator.com">system10.sales@tietoanator.com</a>

**TABLE 2**  
**AGENCY TREASURY SERVICES, APRIL 2003.**

Supplier type	Bank Agency Treasury Services		
Supplier and service name	ABN AMRO Bank	AIB International Financial Services	Bank of Ireland
Service name	Agency treasury services	Treasury outsourcing	Outsourcing services
<b>General</b>			
Single or multi-regional operations Location(s)	Multi-regional Dublin, (1987), Amsterdam, (1989) Budapest (1999), Curacao (2002)	Single Dublin, (1987). Budapest (2000), Zurich (2001)	Single Dublin (1995)
Types of corporate user	50% head office, 50% regional treasury	5% head office, 95% regional	US, UK and European corporates
Treasury and other systems used	Finance Kit/e-Kit; BankStation International, Global Netting	Globus, FinancialCAD, Monarch. All fully web-enabled	Proprietary Bank of Ireland systems
<b>Liquidity and balance management</b>			
Single or multi-bank Accept data file of cashflow forecasts Bank account monitoring and management	Multi-bank Yes Data colln, reporting, reconciliation, investigations	Multi-bank Yes Active monitoring, reconciliation and error tracking	Multi-bank Yes Comprehensive service tailored to client requirements
<b>Cash management</b>			
Investment services Securitisation services Cash pool monitoring and management	Money market/certificate of deposit/commercial paper/ bonds/liquidity funds No Cash concentration/zero balancing accounts/notional pooling	Set policy as to risk, counterparties, instruments and the like Yes Active management of pools, interest and documentation	Full service via Bank of Ireland or alliance partner banks
<b>Payment and transaction</b>			
Preparation & delivery of treasury payment instructions to bank(s) Payment confirmation and reconciliation Domestic & international payment & receivables Other payment services	Yes Yes Yes	Yes Yes No Management of multi-bank securities settlements	Yes Yes Limited accounts receivable/accounts payable
<b>FX exposure management</b>			
Single or multi-bank FX deal execution, confirmation and settlement Evaluation of exposures and performance	Multi-bank Yes Yes	Multi-bank Yes Yes	Multi-bank Yes
<b>In-house bank services</b>			
Intra-company payments Inter-company loan services	Netting/invoice clearing  Portfolio management, documentation, rollovers, report, by reconciliations	Netting and bulk payments through client cash mgt bank Full transaction and documentation management	All intra-group loan administration
<b>Risk management</b>			
Remote access of risk management system(s) Services provided	Yes Mark-to-market, VaR, sensitivity analyses	Yes VaR, scenario analysis, IAS 39/FAS 133	Mark-to-market valuations
<b>Treasury reporting and administration</b>			
Bank account opening Corporate balance sheet Other services	Yes Yes Audit reporting, transaction reporting	Yes Yes Tailored financial and management reporting. Company secretarial	Bank account opening and reporting tailored to client requirements  Company secretarial
<b>Customer service</b>			
Single service level agreement Hours service available	Yes 0800 to 1800 GMT	Yes Normal hours for location	Yes 8am to 6pm, Mon-Fri
<b>Charge structure and level</b>			
Set-up fee Monthly fee Transaction fee Basis points on value of portfolio managed	Yes Yes Yes No	Dependent on solution Fixed Annual Fee No No	Depending on structure Yes No No
<b>Contact</b>			
	Con Tiernan Dublin, Ireland +353-1-609 3893 con.tiernan@ie.abnamro.com	Neil Fleming Dublin, Ireland +353-1-874 0777 Neil.m.fleming@aib.ie	John Goggin Dublin, Ireland +353-1-611 5314 john.goggin@boimail.com

Bank Agency Treasury Services			Independent Agency Treasury Services	
Citibank	JPMorgan	The Royal Bank of Scotland	FTI Treasury Strategies	JMH Treasury
Agency treasury services	Global agency treasury	Agency treasury services	Added value treasury	Managed treasury solutions
Single Dublin (1991)  Head Office 10% Regional treasury 90% Trema, treasury & GLM + web, Quantum, WSS, CMS, various EB	Multi Dublin (1987), Hong Kong (1997), Tampa, Florida (2001) Full mix of head office, regional and local Multiple systems used to provide fully integrated services	Single London, Edinburgh  Corporate and financial institutions  SunGard Quantum and in-house developed systems	Multi-regional FTI, Dublin (1991) Treasury Strategies, Chicago (2000) 80% head office, 20% regional  Twin, Sun, Vision, EB's, Reuters, SunGard	Multi-regional Dublin (2000), Atlanta (2000)  30% head office, 60% regional, 10% other Selkirk and Citadel
Multi-bank Yes Transaction & balance collection, reporting, reconciliation	Multi-bank Yes Full administration of any treasury related bank facilities	Multi-bank Yes RBS ATS provide an active account monitoring and reconciliation service	Multi-bank Yes Balance & account analysis review, metrics, reporting	Multi-bank Yes Manage multi-bank reporting, create consolidated position
Commercial paper, money market, liquidity funds  No Cash concentration, zero balance accounting & notional pooling (multicurrency)	Comprehensive investment capabilities available  Yes End-to-end service provided	There is a wide spectrum of products used in accordance with client-chosen parameters Yes Yes	Yes in Europe, limited in US  Yes Yes in Europe; through standard bank products in US	Full service with client selected banks  Yes Full service in line with clients investment policy
Yes Yes Yes	Yes Yes Yes Full administration of any treasury related payment activity	Yes Yes Yes	Yes Yes No Yes	Yes Yes Yes
Multi-bank Yes Yes	Multi-bank Yes Yes	Multi-bank Yes Yes	Multi-bank Yes Yes but not in the US	Multi-bank Yes Yes
Netting  Admin, management of VaR % chgs, rollovers, documentation, loan a/cs	End-to-end service provided  End-to-end service provided	Yes. This is provided in accordance to client parameters Yes. This is provided in accordance to client parameters	Yes but not in US  Yes but not in US	Yes. Invoice clearing & netting  Yes. Full service incl set-up, admin & accounting
Yes Mark-to-market analysis, VaR, sensitivity analysis, benchmarking	Yes Services available provided on demand	Yes Sensitivity analysis and IRD modelling of exposures leading to co-ordinated risk management policy formulation using in house risk management model	Yes but not in US Interest & FX rate risk mgt, credit risk. (Only in Ireland)	Yes Portfolio mark-to-market analysis
Yes  Yes Regulatory and Central Bank reporting	Yes  Yes Comprehensive reporting for all processes administered	Yes  Yes	Yes  Yes Customised treasury reporting; account analysis, best practice reviews	Yes  Yes
Yes 10x5	Yes 24*5 through global hubs	Yes 12 hours/day, 5 days/week	Yes 5 x 7am - 6pm, in Ireland/USA	Yes 08.00 to 18.00 GMT & EST(USA)
Yes. Tailored to clients needs Yes No No	Yes, tailored individually Yes, tailored individually Yes, tailored individually Yes, tailored individually	Yes, according to client requirements Yes, according to client requirements Yes, according to client requirements Yes, according to client requirements	Sometimes; varies by client Yes; varies by client No No	Yes, dependent on scope Yes, dependent on scope Yes, dependent on scope Yes, in securitisations
Ineke Bussemaker London +44-20-7500 1449 Ineke.Bussemaker@citigroup.com	Ian Talbot Dublin, Ireland +353-1-612 3101 ian.talbot@jpmorgan.com	Tom Roche London +44-20-7648 3284 rochet@rbs.com	Aengus Murphy (Europe) amurphy@fti.ie Cathy Gregg (US) cathy_gregg@treasurystrat.com	Declan Lynch Dublin, Ireland +353-1-612 6208 dlynch@jmht.com

<< The past 12 months have seen the consolidation of existing treasury system outsourcing services with demand growing possibly as fast as for agency treasury services. These days, the question that should be asked of all corporate treasurers is: "Do you really need to spend all that time and money operating a corporate treasury system in-house?" Increasingly, the answer seems to be "no".

**AGENCY TREASURY SERVICES.** Banks started providing agency treasury services in the mid-1980s in places such as Dublin where there were tax advantages. As the tax advantages decreased they moved into providing full cash and treasury management services, expanding the business way beyond the limited tax accounting and company secretarial support it once was.

The battle for agency treasury service business is getting fierce as the major banks consolidate and expand their services. ABN AMRO is expanding its service by opening offices in the US and Asia Pacific, continuously developing straight-through processes to improve efficiency, and building scalability.

JPMorgan is developing a range of financial value chain service products because, as Ian Talbot, Head of Global Agency Treasury at JPMorgan, says: "It has never been more important that we create genuine, measurable value propositions for our clients. We are expanding the range and depth of services we offer to make those propositions increasingly more compelling."

Over the past 12 months Citibank has installed Trema's FinanceKIT treasury system and made significant improvements to its customer web front-end and has integrated its new treasury system with its general ledger module. Citibank has improved straight-through processing to enterprise software systems such as SAP and now also offers hedge accounting and advanced risk measurement reporting.

Allied Irish Bank (AIB) has installed the Financial CAD risk management system and now offers advanced risk management as a standalone service or as part of its general agency treasury services. AIB users can now carry out accurate FAS 133 and IAS 39 calculations and reporting, as well as general risk management analyses, including scenario analysis.

JMH Treasury, one of the leading independent suppliers, now calls its services "managed treasury solutions" and no longer refers to it as outsourcing. It has added the Citadel platform to enable clients to securitise their trade receivables and get access to cheaper funding.

Both banks and independent third-party suppliers provide agency treasury services. Over the past 12 months independent supplier Global Treasury Services withdrew from the market. Although many banks round the world have begun to develop corporate treasury outsourcing services, at the moment there are still only some eight or nine actually providing them. The survey reviews the services from six banks – ABN AMRO, AIB, Bank of Ireland, Citibank, JPMorgan and RBS Group – and from two independent suppliers – FTI/Treasury Strategies and JMH Treasury. The features reviewed include:

- the type of operations, users and treasury systems;
- liquidity and balance management services;
- cash management services;
- payment and transaction services;
- FX management services;
- in-house bank services;
- risk management services;

- treasury reporting and administration;
- customer service; and
- charges.

The full results from the questionnaires are given in *Table 2*. The overall finding from the 2003 review is that functionality has changed relatively little in the past 12 months. Other findings include:

- regional corporate treasury departments are still the biggest users of agency treasury services;
- most suppliers have operational centres in only one region, FTI/Treasury Strategies and JMH Treasury have operations in both Europe and the US, and only JPMorgan has full global coverage with operations in three regions;
- most suppliers use a combination of a web-enabled corporate TMS and other systems to provide their services;
- multi-bank liquidity and balance management services are available from all suppliers;
- the main difference in cash management services is the availability or not of securitisation services;
- all offer support for treasury payments and transactions, although not all offer support for domestic and international mass payments and receivables;
- all FX exposure management services are multi-bank;
- in-house bank services, available from all suppliers, range from quite limited to a full range of functionality;
- remote access to risk management systems is now available from all suppliers, although the depth of functionality varies considerably; and
- all the suppliers have some form of set up charge and monthly fees but only three have transaction fees and basis points charges.

Demand for agency treasury services is still growing but "it is not a flood, rather a drip feed", as AIB's Neil Fleming puts it. All the suppliers are finding increasingly more European-based companies looking to outsource their main head office operational treasury functions.

There is also continuing demand for the outsourcing of regional corporate treasury department operations and of single functions within a corporate treasury department. Some suppliers no longer accept outsourcing of single functions unless there is a clear understanding that, if it is successful, it will lead to the consideration of outsourcing considerably more. Europe is still the leading region for corporate treasury outsourcing demand but according to Citibank's Ineke Bussemaker, "Asia is starting to show significant interest".

Growth in agency treasury services is steady and the size and quality of business is attracting the attention of many banks worldwide. Over the next 12 months it is likely that we will see a significant number of additional banks providing agency treasury outsourcing services.

Corporate treasury outsourcing is an important option for treasurers. The choice of which functions and activities to outsource is critical and managing outsourcing providers is fast becoming an essential skill for finance directors and corporate treasurers.

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