MOVING TO THE CENTRE

Shell's size brings advantages, but plenty of issues when it comes to streamlining account management and forecasting

Frances Hinden, vice president, treasury operations at Shell International, gave a fascinating account of Shell International's cash management operations – treasury operations at some scale: "Our size is unusual in a treasury context – in fact, in a global context," she said.

Shell's treasury and cash management challenges are not unusual, Hinden said, and Shell faces them in a similar way to many other corporates. The cash management and cash-forecasting journey of the past six years, however, has been a journey towards centralisation, and it has yielded some interesting lessons, she said.

First, the numbers: Shell's treasury operation is 100-strong with another 160 people in five service centres, three of which are devoted to cash management. Shell operates with 59 currencies and it has three main treasury hubs: in London, Rio and Singapore.

One of the most notable features of the cash management operation is the sheer amount of cash coming into the business. "This isn't the turnover you'd see in the annual accounts; this is the cash flow that goes through each year: because we are tax collectors on behalf of a number of governments," she said.

As an example, there are 80 million direct debit transactions each year in Germany alone. Shell is in the process of moving its cash management bank from the Royal Bank of Scotland (which has withdrawn from cash management) to Citibank, a process that involves notifying 400,000 customers, who make payments into Shell bank accounts. "And that's just in Western Europe," she pointed out.

Bank relationships

Shell is moving towards a highly centralised model with centralised accounts and master agreements. The proportion of its 2,300 bank accounts that are managed centrally goes up each year, and the overall number goes down.

As far as bank relationships go, Shell is in a position to capitalise on its name. "We take advantage of our size. We say: if you want to say you are a service provider to Shell, then we have to have the facilities to justify that. But we have to let people make money because otherwise it's not going to last," she said.

Setting up and maintaining three cash management shared service centres (SSCs) has provided interesting cultural lessons, Hinden said. The centres, in Chanai, Glasgow and Kraków, are very different to one another. Kraków is around 80% female, with an average age of 29 years. Chanai, meanwhile, is almost exclusively male, with a much older average age. "When we talk about moving something to an SSC, it is a matter of what fits best with that culture," she said.

Shell started centralising by moving bank reconciliations to the SSCs. "The way we did it was the way I think a lot of people start by doing it. We said show us your process, give us a template, and we will lift and shift. We made savings, but where we've really started to see the benefit is when we've said we are going to have one standard process and we are going to improve on that process."

The advantages of having dedicated teams for bank reconciliations are evident in the key performance indicators. The number of items outstanding has gone down from the thousands to single digits, Hinden said.

Another key advantage is the resilience of the SSCs against so-called CEO payment frauds. "The level of CEO payment fraud is absolutely tiny because they have a written process. If someone wants to make a payment it has to have two authorisers and has to come through their system. If [a request for payment] doesn't go through the process, it doesn't happen."

Shell has also moved global bank account management to the SSCs and here there has been less scope to standardise the process. "There are no standards on opening and managing bank accounts. The great thing about our primary bank model is that for operating companies that are signed up to the over-arching master agreement, we have a very smooth account-opening process because we've done a lot of the know your customer [on-boarding]. However, we have a lot of joint venture companies in countries that are new to us, with unusual requirements. What we're struggling with is how to get a standardised process on that."

SHELL IN NUMBERS

Global cash management: 70+ countries

200+ employees in five service centres

18,000 treasury cash flows monthly

$3.9 trillion cash flow per annum

Cash forecasting

When Shell looked to streamline its cash forecasting, it found automating even a very big percentage of the process did not yield hoped-for benefits. The reason: instead of just devoting time to cash forecasting, individuals in the service centres were responding to requests for individual reports, current account balances and management information reporting.

The answer was to push back. "For every report people were doing, we started challenging people: why do you need this? When we say to people 'the oil price is $30; do you really mean it when you say you want it?' The answer in 80% of cases is no," she said. ◆

CHOICES FOR SURPLUS CASH

A panel discussion on investing surplus cash yielded highly diverse views on investment policy, yields and bank relationships.

Chris King, group treasurer at Vita Group, explained that country rating downgrades in Europe put the group in breach of its ratings policy during his early days in the role. His response was to move to a more dynamic investment model – an 18-month project – focusing away from rating agencies and implementing an early-warning traffic-light system to monitor performance and to provide much more refined definitions of exposure for derivatives and investments.

Peter Walker-Smith, treasury manager (front office) at AstraZeneca, says his priorities are security, liquidity and yield, in that order. The front office currently manages around $400m in cash, around three-quarters in money market funds (MMFs) and about a quarter of that in tri-party repos. "We look for preservation of capital in particular; we're less concerned with mark-to-market volatility," he said.

"As a treasurer you've got to consider the risk. So we moved out of secured bank deposits and are looking to move out of MMFs because of the regulation coming in," he said.

Two years ago, AstraZeneca took a long, hard look at counterparty risk for repos, he explained. "We figured that we have a lot of bank exposure risk already, especially for derivatives. But around the world we see a lot of trapped cash. In China and a couple of other locations there is easily $20m, so we already think we have enough bank risk and are looking to move away from that, and tri-party repos are a way of still operating on a more term basis."

Gerard Tyler, group treasurer at Urenco, a uranium provider into power stations, operates in a heavily regulated industry. As well as three main plots in Europe, there is a newly built facility in New Mexico. So the company has been moving from a cash-generative period to a capital-intensive one.

In terms of setting policy, Tyler's perspective starts from the fact that he's not prepared to lose cash, although, of course, there are no guarantees, he said.

"What we concluded was, if you look at the clearing banks in the UK, the evidence was that the UK government stepped in to support them," he said. The main alternative outside of banks, MMFs, are unattractive to him. "Banks we thought we really didn't want to be with, their paper was stuffed into MMFs. The banks on our list I can go to the board and defend. With MMFs, it's someone else's decision and that could change afterwards."

From left to right: ACT associate director of education Will Spinney, Gerard Tyler, Peter Walker-Smith and Chris King discuss investment strategies