



FRONTLINE SUPPORT

THERE IS A SOLUTION FOR TREASURERS UNDER
PRESSURE TO DELIVER MORE WITH LESS,
WRITES SVANTE KANDEL

Outsourcing of business processes is a well-accepted concept. But although it was introduced more than 25 years ago, it is still not widespread in the field of corporate treasury.

Corporate treasury outsourcing is not a 'one-size-fits-all' model, but rather it can be a customised service that caters to your specific needs.

So what does treasury outsourcing entail?

Generally, it is the handing over of certain distinct sections of your corporate treasury activities to a third-party service provider. The service provider can be a bank or an independent firm.

In the early days, many banks offered outsourcing services, but several have now

withdrawn completely from the market. Banks entered the outsourcing market to strengthen their relationship with the client and to generate business volume.

An independent outsourcing company is normally a specialist organisation with a corporate treasury background.

Both types of outsourcing provider use experienced staff, together with treasury management systems, tools and processes that enable them to execute their duties in an efficient way.

What is normally outsourced?

A large variety of corporate treasury activities and processes can be in scope – basically, front-, middle- and back-office tasks. It is

recommended, however, that strategic initiatives (core/value-added activities of the company) stay with the client. One objective of treasury outsourcing is to free up resources to be able to focus on value-added tasks. The definition of strategic, or not, will, of course, vary between organisations, but generally policy, bank relations and long-term funding arrangements reside with the in-house team.

The service provider can be employed for a few treasury activities or even for a single activity such as intercompany netting, intercompany lending, cash-pool management or accounting for treasury products.

It can also be broadened to a larger scale of operational activities, including system

administration and reporting, right up to full treasury outsourcing that would also include front-office activities and settlements. In some cases, the third-party provider is used for back-up purposes to mitigate possible in-house organisational risks.

Why outsource treasury activities?

It goes without saying that cost reductions and efficiency gains are key to any outsourcing decision. Outsourcing offers treasury expertise that helps to address issues with systems, controls or staffing within the in-house corporate treasury team.

For larger treasury teams, it is more common to outsource specific administrative tasks or certain duties of back- and

ILLUSTRATION: IMAGE SOURCE

middle-office operations. This frees up resources for the in-house organisation to focus on more value-added activities, such as policy development, bank relationships or new projects.

For smaller treasury teams, there can be other triggers for change. For example, the cost of a treasury system can be a stumbling block, the team may have taken on additional responsibilities or it can be difficult to achieve the necessary internal controls, for example, with segregation of duties.

There is also the issue of starting up a treasury centre in a different geographic area. A third-party outsourcing provider can take the necessary steps quicker and be more cost-effective.

Finally, outsourcing is common in the case of organisational change, for example, divestment. Here, a treasury outsourcer can step in and manage the treasury activities that were previously done by the central treasury team in the combined group.

The pros and cons

Outsourced treasury offers similar advantages to other types of outsourcing. The client benefits from the service provider's know-how and economies of scale. If the processing of data can be automated, and the less value-added treasury activities can be separated from the in-house treasury team, more focus will be given to pertinent and strategic issues.

Treasury outsourcing can have additional benefits, such as added flexibility and scalability, improved possibilities to implement

CASE STUDY

HEINZ BÄHNI is group treasurer at SGS, a leading inspection, verification, testing and certification company. The group employs some 85,000 employees and operates more than 1,600 offices and laboratories around the world.

"Treasury outsourcing is an integral part of SGS's treasury activities. We maintain decision-making while outsourcing most of the day-to-day front- and back-office activities.

"My role is to support our business and operational activities in strategic treasury topics and with value-added solutions. We are of the opinion that daily routines, such as aggregation of data, processing of transactions and general treasury administration, are not core for the group. My experience is that we simply invested too much time and resources in systems and technical platforms, as well as in HR matters related to daily operations.

"In SGS's case, group treasury maintains responsibility and control over policy, bank relations, long-term funding and treasury control. The

main reasons why we manage daily treasury activities on an outsourced basis are cost, contingency, competence and added controls, as well as scalability of services.

"After more than 35 years in treasury, I know that this gives us substantial cost savings in certain areas. We also have a very robust operation with the right mix of in-house and external resources. Control is improved in the sense that the outsourcer actually adds an additional layer in the control mechanism. In terms of competence, we have access to best practice and short lead times in all technical matters.

"We have worked with outsourcers since 2003. Technology that facilitates outsourcing, as well as the outsourcing service itself, has evolved a lot over these years. In the early years, a large financial institution provided us with quite a standardised solution. Today, we are working with a customised service that seamlessly integrates with our in-house treasury activities."

adequate segregation of duties, better back-up to in-house resources and sometimes reduced concern about IT issues for the in-house treasury team.

It is clear that treasury outsourcing is not the solution to all problems, however. Sometimes clients perceive that outsourcing treasury activities causes a lack of control or a lack of information. These issues must be addressed upfront and there should be no misunderstanding as to what is expected of each party, especially with respect to the treasury policies of the client and its objectives regarding the services

provided. It is crucial that regular reporting duties, service level agreements and the necessary insurance are in place, and sufficient attention is devoted to them. There is also a need to invest time in the relationship with the service provider.

Why is treasury outsourcing not more commonly used?

Given the ever-changing regulatory landscape and the pressure on treasurers to do more for less, you might have expected there to be greater interest in treasury outsourcing.

Here are some reasons why this may not be the case:

- **Emotions** – There is a fear that outsourcing will lead to an unwanted lack of control. Evidence shows, however, that in transactional processes, control is often stronger compared with an in-house function.
- **Cost savings** – These may be insufficient. Treasury is often a small department within the organisation. Therefore, the potential savings may be less significant compared with other cost-saving projects.
- **Organisation** – Some treasurers are reluctant to reduce the number of in-house staff because outsourcing will directly reduce the number of staff they have managerial control over. Also, CFOs may think that their well-paid treasurers should be self-governing and fully in control of their functions.

Summing up

Today, treasurers are being forced to find new ways to contribute to business success – and relatively few of them anticipate that the size of their teams will increase. They also come under pressure to further reduce the cost of ownership of their technical platforms and to further automate operational tasks in order to increase efficiency and control.

Corporate treasury outsourcing may not be widely adopted at present. But it will be interesting to see which new external – or internal – demands can alter this picture and put outsourcing questions on the radar of corporate treasurers anew. ♡

Cost reductions and efficiency gains are key to any outsourcing decision. Outsourcing offers treasury expertise that helps to address issues with systems, controls or staffing within the in-house treasury team

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