

THE BENEFITS OF CORPORATE TREASURY OUTSOURCING

CORPORATE TREASURY WHITE PAPER

INTRODUCTION

Today, there is a sustained trend for the increasing use of outsourcing throughout the global business community. Essentially, more and more companies and corporations are seeking to transfer the responsibility for non-core business functions to expert third parties.

There are several reasons why this is occurring, ranging from enhanced risk management to improved expense, performance and control. Risk is reduced by delegating critical, specialist business functions such as IT and communications infrastructure and management, payroll calculation and administration and human resources management to specialist third party companies with established track records of achieving best practice results in the relevant disciplines.

The expert execution of outsourced functions leads directly to improved quality of business performance and reduced operational and business risk levels, supported by the appropriate assurance of full service delivery, usually formalised by a robust SLA (service level agreement) with the vendor.

Outsourcing can generate very significant cost savings through the shared use of expert human and technical resources by the outsourcing organisation's clients. This approach usually achieves substantial economies of scale, as the client should simply contract to outsource the specific set and volume of business functions that it needs.

The outsourcing approach eliminates the expense (and risk) of hiring and maintaining an in-house team, including back-up resources to handle absences and resignations. A well-planned and executed business process implementation with the right outsourcing partner simply **eliminates numerous hassles, complexities, costs and risks – and liberates the client's professional team to focus on its core functions.**

THE BACKGROUND TO CORPORATE TREASURY OUTSOURCING

Treasury is a prime candidate for choosing value-added outsourcing for some or all of its business processes. Ever since the financial crisis first struck in 2007 and now in 2020 with the Covid 19 economic crisis, there has been significantly increased Board focus on specialist treasury operations.

Initially, cash visibility and mobilisation were the primary concerns, as businesses struggled to generate sufficient liquidity to sustain their commercial operations. Subsequently, the volatility of the Foreign Exchange market has emerged as the most generally pressing treasury concern, as CFOs have sought to protect foreign-generated profits and earnings.

These developments have accelerated the tendency for companies to form a discrete treasury function within the Finance department, and this is occurring on a global basis. An additional trend is emerging, that it is now considered to be good practice for companies with annual turnovers as low as US\$ 50 million (or even less) to formalise a treasury function, provided that they perceive themselves to be carrying a sufficient level of financial risk to merit this development.

The considerations that influence the general trend towards the outsourcing of critical non-core functions - risk reduction and cost management - are highly relevant in the evaluation of an organisation's existing or planned treasury function. Business analysts and consultants frequently advocate the delegation of some or all of the responsibility for treasury operations to an outsourcing partner. Finance teams may not include individuals with the necessary skills and experience to perform functions such as front office treasury dealing, back office deal settlement and administration and treasury accounting quickly and effectively.

Treasury outsourcing provides a low cost, low risk solution that can 'hit the deck running' and provide complimentary expert resources who do not require expensive hiring, training and supervising efforts. A fully scalable outsourcing offering provides the means of quickly and effectively putting in place a professional treasury function that delivers just the business processes that are urgently needed.

Once an organisation has decided to enhance treasury operations by establishing a partnership with an expert outsourcing company, the selection project will focus on two priorities: service scope and quality, and the performance of the treasury management system technology as well as the outsourcing partner's ability to support the technology.

The evaluation of a prospective vendor's outsourcing offering naturally prioritises the available set of treasury business processes. These will vary between different companies, and can include Front Office functions including Foreign Exchange and Money Market dealing, and cash management and mobilisation; Back Office functions such as deal control, confirmation, and settlement, and other administrative functions such as treasury accounting and the generation of management reporting. **The size and quality of the vendor's treasury team are major considerations, as the client company's finance team will need to establish that their outsourcing partner has the necessary skills, experience and capacity to provide a high quality and utterly dependable service.** A key consideration is the necessity for the client and vendor teams to work closely and with full confidence in each other's professionalism.

The scalability of the proposed outsourcing service is a key consideration, as the client will naturally prefer to license just the necessary set of business services that are required. This requires a suitable degree of flexibility in the vendor's operating methods, as each client's needs would ideally be addressed in specific detail. One client might simply require expert advisory and deal execution services; another, with in-house dealing expertise, might want to outsource back office administration and reporting functions. The possibilities can be quite complex, but the objective is quite simple: **to select a dependable outsourcing partner who will deliver the required set of treasury business services.** Precise scaling means that the client company will simply license just those functions needed to fulfill its specific treasury business needs – no more, and no less.

A final consideration is that the client company will need a high level of assurance that the treasury operations performed by the vendor's team are fully compliant with finance policy. This means that the operating arrangements must accommodate the client's dealing policy with respect to the permitted instrument types and maturities, the assignment and management of counterparty limits for FX and investments, the security and control procedures for deal authorisation and validation, and for payments management, for example. This is another area in which the outsourcing company must provide a scalable and flexible solution, so that the details of a client's specific requirements are fully satisfied.

The selected vendor must become a trusted business partner, so that the joint client-vendor team can work together in confident and efficient professional collaboration, to plan and execute the required cash and risk management operations.

The quality of the outsourcing vendor's supporting technology underpins the company's ability to deliver a reliable and accurate service to its clients. **Technology is a fully integral and most important component of the outsourcing service.** Today's best practice standards require treasury technology that is much more robust than spreadsheets – a mission-specific treasury management system, or TMS. The TMS manages the database, communications, treasury processes and reporting which are at the core of the operation, providing a secure foundation for the outsourced operations, and a real time communications channel for the client. One of the major benefits for clients of market-leading outsourcing operations is that they are able to share the functionality, power and flexibility of world class technology very cost effectively. Technology is the key for achieving maximum benefits from a treasury outsourcing arrangement, enabling small and medium-sized organisations to enjoy the powerful, flexible and transparent treasury management facilities that were formerly only within range for large corporations.

The selection of an outsourcing partner should follow normal procurement procedure in terms of attending demonstrations and meetings, performing tests and workshops, visiting the vendor's offices and having discussions with reference clients, and qualified consultants and analysts. The evaluation should address the outsourcing partner's ability to implement and support the TMS, the integration with the banking networks, the implementation blueprint as well as live business operations. The contractual agreement should clearly define the deliverable treasury services and both parties' responsibilities, with linkage to the client's treasury policy document, plus reasonable SLA's linked to performance metrics.

Once a vendor has been selected and the contract executed, the implementation itself will involve working with the vendor to configure the supporting TMS to manage the client's processes and reporting, and to enforce the client's treasury policy, set-up counterparty limits, operating rules and controls, setting up KPI dashboards and following best practise project plan methodology to move from commissioning into live operations. Part of this process requires the client and vendor teams to practice and finalise their new working practices, to ensure effective communications and operations.

CONCLUSION

The decision to outsource some of your corporate treasury functions gives your treasury team the ability to focus on strategic matters and decisions that need to be made, rather than spending hours doing manual mundane repetitive work. Choosing a partner that implement and support world-class treasury technology locally with an active bank connectivity network already in place will unlock immediate value for any business.



HENNIE DE KLERK – FOUNDER AND CEO

Hennie founded TreasuryONE in June 2000 and successfully built the company with his entrepreneurial spirited drive to unlock financial value for clients by using his more than 25 years' experience in the specialised field of treasury technology and market risk management.

Apart from his passion for corporate treasury, Hennie is an avid racing and rally driver, and has competed and finished two Dakar Rallies in 2020 and 2018 respectively – winning the Rookie award in 2018 – the first-ever South African to accomplish this.