VIEW POINT

TREASURY OUTSOURCING: GOING BEYOND THE TRADITIONS

Abstract

Treasury outsourcing has been around for decades, but it has traditionally been used for relatively low-value, transactional activities. This paper discusses how the core treasury functions performed by the client's internal finance team are different from the traditionally outsourced treasury work, and how outsourcing partners have great scope to build robust capability in this area in the years to come.

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Treasury: A niche area

Treasury is a vital function of finance and is entrusted with the task of managing the liquidity of a business. The treasury department ensures that the business has the necessary cash/liquidity to run its day-to-day business functions in an optimum and risk-free manner. By effectively managing the company's money and financial risks, the treasury department can help the business achieve its strategic objectives.

A niche area of finance, treasury is typically handled by a company's internal finance team. Only a limited number of treasury activities are outsourced to service providers, with the core activities remaining in-house.

Let's try to understand how the core treasury work is different from the traditional outsourceable activities.

Outsourceable treasury work vs Core treasury activities

Some of the treasury activities outsourced are the preparation of cash flow statements, conducting bank reconciliations, reviewing, and analysing aged accounts receivables, and regular accounts payment review and approvals. While these activities are related to "managing the liquidity" of the business, these are performed by the Accounts Payable (AP), Account Receivable (AR), or General Ledger (GL) teams. These activities are important but generic. Typically, no specialized knowledge or experience is required to carry them out, and they can be performed without the requirement of having sustained connections with business leaders or entities such as banks or statutory authorities.

Core treasury activities can be categorized into – front-office activities, middle-office activities, and back-office activities.

Front Office - Key responsibilities:

1. Liquidity, cash, and debt management - The front office prepares an 8/12/16-week rolling forecast every week, post-consolidation of inputs from various teams, to ensure there is sufficient liquidity within the group to meet its daily obligations.

2. Foreign Exchange (FX) management including hedging programs - The front office is also responsible for executing the monthly hedging program in line with business policies. The team hedges the net cash flows on behalf of its subsidiaries, for e.g., Sell SEK and Buy USD.

3. Reviews and approvals - As trading FX has a risk component associated with it, the front office reviews and approves all transactions before they are executed, avoiding any unnecessary interest costs or trades done outside of business policy.

4. Investment management - They also manage investment activities in fixed deposits, commercial papers, bonds, and foreign depositories to park excess funds.

Middle Office - Key responsibilities:

1. System and user administration, maintenance, and development of treasury systems and applications – The middle office ensures that the right people have access to the right applications, without any segregation of duties (SoD) conflicts. They also make sure that all systems are connected and that data flows accurately and completely.

2. Bank Account Management (opening, closing, amendments of bank accounts and banking products) - The middle office initiates conversations with banks, third-party consultants, and support teams. They list the requirements and liaise with the Company Secretary for board approvals for opening and closing bank accounts and other banking documentation.

3. KYC towards banks - The middle office manages banking documentation and day-to-day bank relations. They ensure KYC requirements are met and updated, and ensure compliance for documents like AMC, bank accounts, and mandates are compliant.

Back Office - Key responsibilities:

1. Trade settlements, confirmations, and cash management transfers - The back office does Treasury settlements (FX trades, MM investments, RCF re-payments, Interco trades, cash transfers, etc.) and it is strictly time-bound due to bank cut-off times. They make sure that no payment is failed or delayed.

2. Daily cash book reconciliations of treasury bank accounts in the treasury system - The back office manages cash book reconciliations using treasury systems. All treasury-related payments originate from the treasury system, which records all treasury-related transactions.

3. Bank interest and charges analysis - The back-office analyses interest rates, charges, and AMCs of various banking products. They compare these products across banks to provide insights to the head office for informed negotiations.

4. Period End Activities - The back office is responsible for all treasury accounting activities, including setting up entries in the treasury system, producing monthly accounting reports, reconciling balance sheets, and preparing P&L overviews. It also reconciles intercompany reports and provides analysis and commentary.

Why are these activities retained in-house?

The core treasury work is critical for the smooth functioning of the business and requires close coordination with key client stakeholders, such as the head of treasury, directors, and the company secretary. They require connecting and collaborating with internal and external stakeholders on a regular basis. Cash management, managing bank accounts, managing bank projects, and treasury payment/ settlement are a few of the key aspects delivered through the core functions. The traditional offshorable treasury activities do not directly impact or have any role to play in these key aspects.

Bridging the current capability gap

The previous sections show that there is a big difference between the work done by outsourcing partners and the core treasury work done by the client's own finance team. There is a large untapped potential area in the treasury that outsourcing partners can include in their portfolio of services by taking systematic steps.

1. Investment in people - Creating a pool of experts who have worked in the core treasury area in various industries, who can bring different aspects of treasury expertise and knowledge with them.

2. Creating knowledge documents - Building a resource library of documents containing valuable information and insights that can be used to train and develop employees.

3. System training - Having a sandbox training facility for the extended team on the key treasury management systems and applications such as Kyriba, Treasury Intelligence Solutions, REVAL, SAP Treasury, and Risk Management.

4. Acquisition - Acquiring new businesses with a robust treasury team to have a well-rounded treasury team and build better capability.

Once outsourcing partners have the necessary skills and experience, they can bid for back-office and mid-office work. Initially, this should be done through mixed teams, where both the client and the outsourcing partner share responsibility for work delivery at each level. Front-office work, which involves decision-making, is likely to remain outside the scope of outsourcing partners for the foreseeable future.

Conclusion

The core treasury work is critical to the client's business and requires a deep understanding of the client's business, banking, and investment policies, along with possessing financial skills, good communication, the right technology, and people skills. However, this opens a largely untapped market that outsourcing partners can tap into by taking steps to improve the client experience. By developing their own treasury capabilities, understanding the client's business, their treasury needs, and the latest treasury technologies, outsourcing partners can become trusted advisors to their clients and help them achieve their financial goals.

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Lalitha Narni is a chartered accountant with a Diploma in Information Systems Audit (DISA), along with a doctorate (Ph.D.) in commerce and management. She also holds three postgraduate degrees – a master's in commerce, M.B.A. with specialization in finance and international business, and a master's in financial management (management accounting). With over 20 years of experience in the BPO industry, she has played various roles including managing end-to-end transitions and transformations, leading re-engineering efforts, sharing best practices, and monitoring quality projects. She has also headed operations, managed staff by identifying their training needs and placing the right resources in the right place, maintained a floating team of experts, and managed client relationships. Additionally, she has led COE initiatives from RFP to the stabilization of tax processes.

In her current role with Infosys, Lalitha is the Global Head for the Finance Center of Excellence responsible for capability development and scaling up finance and accounting resources with domain training. In addition, she also supports operations (to identify and deliver transformations, contract renewals, etc.), solution development and orals with prospective clients, and consultation assignments as domain leads for technology projects.

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