

Corporate Treasury Outsourcing – is Dublin still the ‘Capital’

Background

Some thirty months ago I wrote an article for GTNews on Dublin’s then current status in the corporate treasury outsourcing business and asked what its future would be. So it is probably timely to re-visit the topic. To reassess Dublin’s position, what is happening elsewhere and what may develop into the near term future; also to look at recent developments in the treasury outsourcing area.

Back then, treasury outsourcing had established itself as a viable and workable model, but it was in its infancy in terms of adoption by Treasurers and CFO’s. There had been the commencement of a solid shift from tax to treasury business drivers as the motivation for outsourcing. The move by companies towards centralisation of the treasury function, often on a regional basis, to deal with the treasury fall-out of business globalisation supported the outsourcing model. Dublin was very firmly positioned as the corporate treasury outsourcing capital, all companies considering outsourcing would certainly consider Dublin as a possible location and many of them chose Dublin.

Dublin had the experience, credibility, expertise and infrastructure for outsourcing solutions gained over some 15 years of IFSC’s (Dublin Docks) existence.

Recent developments in outsourcing

Since then there have been a number of developments in treasury outsourcing or in areas which affect it. Most of them are supportive of the model.

The fall out of the corporate scandals, the emphasis on **governance and best practice**, the legislation and regulation coming into force, much of which focuses on financial and treasury management, have brought a fresh impetus to effective solutions in the treasury area. Nothing like the Sarbanes-Oxley type requirement on CEOs and CFOs to sign specific statements regarding knowledge and control of cash resources and treasury to bring treasury into the limelight. This has provided new opportunity for the outsourcing model, which is often used to complement existing in-house arrangements so as to deliver the best practice solutions.

There has been a major trend in recent years of upgrading **global and regional cash management solutions**, particularly by major US MNCs. Frequently, these solutions require an ongoing management of the system; they are rarely so automated that they run themselves. It is common to set up small regional treasury centres to support these solutions. They are often centred in Europe and the operations are frequently outsourced.

Companies more and more are pursuing best-cost structured financings, especially securitisations. Often, **SPVs** are set up to facilitate these transactions. Banks, who provide these types of financing, are also setting up SPVs. Indeed, banks have begun to set up

SPVs to facilitate their own funding. The business of these SPVs is very akin to the business of traditional treasury vehicles. They are often set up in favourable tax and/or regulatory locations. The treasury outsourcing model has now begun to extend to these operations, providing a new substantial supply side.

There continues to be a lot of **'corporate activity'**, companies restructuring, including financial restructuring, demerging, spin-outs, acquisitions, investment capital transactions, etc. These create the ideal situations where outsourcing solutions are needed – greenfield or significant change situations, where immediate treasury solutions are needed.

Banks have prioritised advanced cash management solutions and agency treasury solutions (outsourcing) as **key competitive initiatives**. These are excellent entry points to banks' customers which provide good fees in themselves, but equally importantly, lead to up and down stream business and transactions. Also for those banks who do not have agency treasury capability, this is a weakness in their armoury which can lead to loss of good customers – so there is a defensive dimension. This development has given its own boost to outsourcing. We are likely to see more banks entering this arena in the near term.

The **consolidation** that I had expected by the providers in Dublin has not taken place, each provider maintaining independent service provision. However, one bank and one independent provider have exited the business in Dublin in recent times. Also the extent of emphasis given by various banks to this business area has changed in the interval.

Attitude change in the profession

There was a widespread view among the treasury profession that outsourcing was not in the interests of its members. As one treasurer remarked: 'would a turkey vote for Christmas'?

However, this view has changed. Treasurers now see that the solution works well, that many companies have adopted it and that there is no serious threat to their positions. Indeed, those who have outsourced have seen their positions, profiles and career prospects enhanced, mainly as a result of the more effective and higher level role outsourcing allows them play in their companies.

As yet, it is not the case that treasurers, CFOs or companies are making decisions to replace existing in-house solutions with outsourcing, i.e. they are not making a strategic choice, but there are some exceptions. Rather, outsourcing decisions are yet largely event driven.

There also was the view that only operational aspects of treasury could be outsourced. I have argued for quite some time that this was a limiting view of the potential added value. Why not utilise every possible contribution the outsourcing provider, as the in-house treasury partner, can deliver to adding value – nothing else makes sense. At last, this more enlightened attitude is taking hold. My company's latest two outsourcing

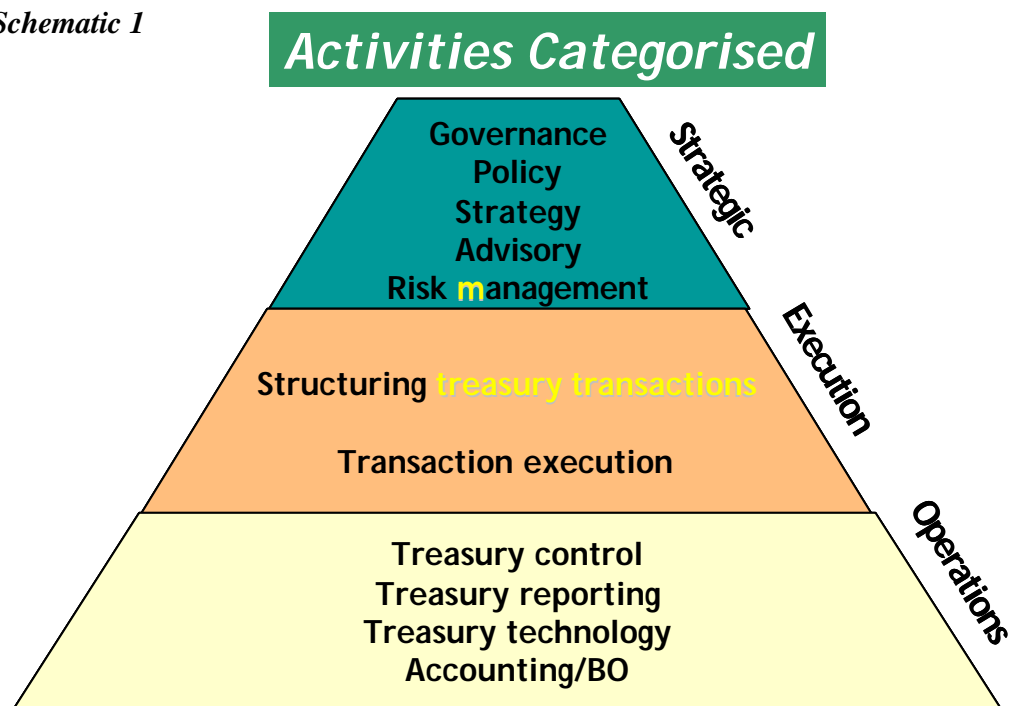
clients made their provider selections mainly on the ability to deliver higher value added contribution, especially in the policy, governance and strategy areas. I suspect that the old attitude was somewhat connected with the potential threat factor mentioned above.

Adding Value – the real benefit from Outsourcing

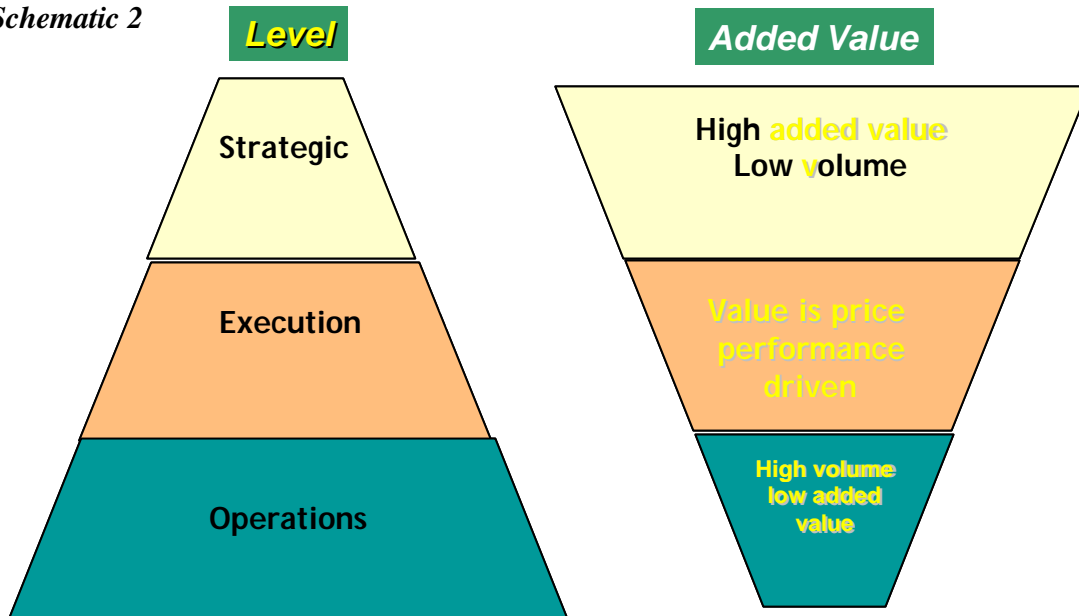
In fact in very recent times there has been a marked change in the way companies have begun to utilise outsourcing in Dublin – they now engage their outsourcing service provider in areas where they would previously have been excluded and this is at the high value end of the treasury business. For example, one of my company’s long established outsourcing clients, which recently completed a major acquisition, engaged us to assist in the financing negotiation with the banks, devising risk hedging strategies and implementing that strategy. Another, which has a major expansion investment programme underway, uses our expertise to assess at a high level and to develop solutions for the treasury and risk implications of the investment and the manner in which it would be financed. In addition, to assist with the development of treasury strategies to deliver these solutions. In both cases the traditional operational outsourcing is also conducted. In the latter case, my company was selected as the outsourcing partner precisely for this value adding capability.

This is a very favourable development for the outsourcing business. It is worth analysing the treasury activity to understand how value is contributed and these two schematics convey the message:

Schematic 1



Schematic 2



As can be seen, the elements of the treasury activity can be categorised into Strategic, Execution and Operational. Most added value can be delivered through the strategic elements, least from the operational. I have often used the expression: ‘treasury performance is much more determined by the longer term treasury strategies which a company develops and implements, rather than by gaining a basis point or two in transactions executed’. Yet very often treasury’s focus and the role of an outsourcing partner are on the latter. It will be to Dublin’s longer term advantage if providers move up the value ladder to the extent possible in the services and solutions in their offerings. As a minimum, this is a defensive strategy against competition, but it has much more compelling positive reasons.

Current drivers

As mentioned, current outsourcing decisions are event motivated. In other words, some change in a company’s treasury requirements and/or its ability to deliver favours an outsourced solution to meet all or part of the solution.

More and more, we experience avoidance of investment expenditure, especially in the systems/IT area, as a driver. Treasury systems projects are expensive, very disruptive and take a long time to complete. Normal sized in-house treasuries rarely take full benefit from the systems investment and usually companies are exposed to one or two staff members who are ‘conversant with the system’. Overall, a high cost, high risk proposition. So, now treasurers are adopting the outsourced total systems solution option, not just ASP, but fully maintained, operated and resourced systems solutions.

In general terms, the continuing drive by groups for better value from their cash resources and other treasury activities, the emphasis on risk control and governance, and the extending pressures on headcount all provide opportunity for the outsourcing solution to play its role, to complement the treasurer and his in-house team, and treasurers are seeing it this way.

As the resistance barriers continue to break down and as the model comes into more frequent use, as has been happening, a wider range of companies are beginning to consider the option.

Dublin's current status and Other Centres.

Dublin still holds the very dominant position in the corporate treasury outsourcing space. Over the 30 months, no other centre has emerged with significant inroads into this business area, certainly not business driven operations. Luxembourg and Switzerland continue to attract finance and treasury structures, which are put in place to fit with the global tax structure solutions developed by multinational groups, but these tend not to be outsourced.

Other traditional treasury centres, such as The Netherlands (Dutch Bvs), Belgium (BCCs), Channel Islands, have not developed the treasury outsourcing business. It is difficult to understand why, as they did have the tradition, reputation and 'client base' to support such a development.

Other low cost and/or low tax locations, such as Central and Eastern European states or India, where much business is transferring, have not emerged as treasury centre locations, and certainly not as treasury outsourcing centres.

Dublin's future

All of this means that Dublin is still firmly rooted as the 'capital'. This is despite most of the developments which I considered necessary, as outlined in my last article on the topic, not being realised. There has not been consolidation, offerings have not become bank independent or multibank, and there are no more global service providers in the marketplace. However, better systems infrastructure and wider service offerings, especially in the value add areas by some providers, have taken place.

At this point, it is likely that Dublin will maintain its position as 'Capital of Corporate Treasury Outsourcing' for the foreseeable future – its position has become more robust and perhaps unassailable.

Further down the road, who knows? Central and Eastern European countries, especially the smaller ones, and countries like Malta are beginning to mimic the Irish model, seeing

it as a successful one for smaller states. And maybe one of the old traditional treasury centres will enter the fray.

In summary

Dublin has not been challenged for its 'capital' title, it is rooting its position more firmly and the Fair City should still hold its title in a further 30 months time.