In-house Banking: The Ultimate Treasury Centralisation Model?

by Raffi Basmadjian *(right)*, Deputy Treasurer, Orange and Filipe Simao *(left)*, Head of Client Advisory & Strategic Marketing, BNP Paribas Cash Management

Another of the Open Stage workshops featured Raffi Basmadjian, Deputy Treasurer of Orange, who is well-known across the treasury profession for the pioneering approach that he and his team have taken towards centralisation and optimisation of liquidity and risk. He was joined by Filipe Simao, Head of Client Advisory and Strategic Marketing, BNP Paribas Cash Management who provided expert insight into in-house banking best practices.

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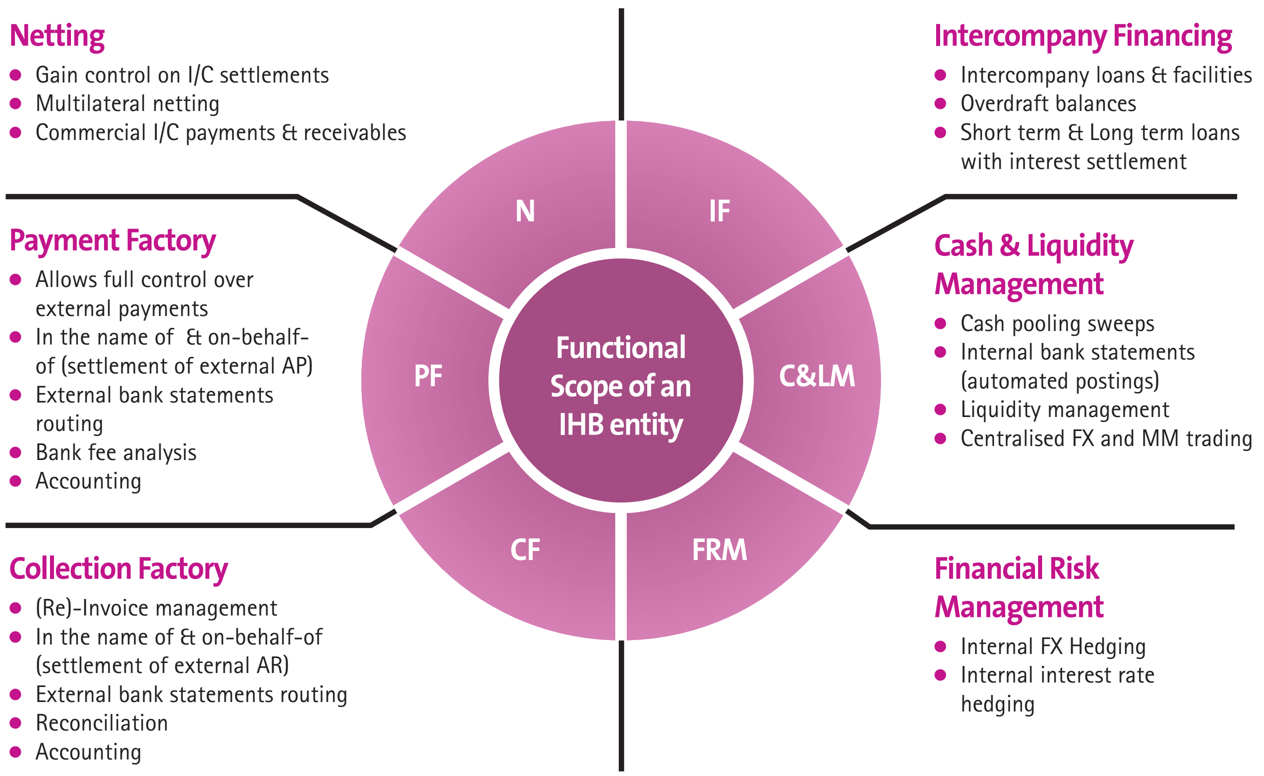
Fig 1: Functional scope of an in-house banking entity



Filipe Simao began by describing how the in-house bank is often the culmination of treasurers' centralisation journey. In-house banks typically support the group either at a regional or global level across a range of activities that mirror those of a bank, including: netting; intercompany finance; cash and liquidity management; financial risk management; centralised payments and centralised collections (figure 1). He emphasised, for example,

"By implementing an in-house bank that incorporates functions such as centralised payments and collections, companies can implement 'in the name of' or 'on behalf of' structures which enables them to streamline processing and reconciliation, minimise the number of external bank accounts and simplify cash and liquidity management. In-house banks also offer significant advantage in managing operational and financial risks. For example, companies can net their FX exposures to create a group risk position, identify natural hedges, and hedge risks in the market more cost-effectively."

A mature in-house banking operation

Orange was an early adopter of in-house banking, a major element of which has been intercompany netting. In 2003, for example, when the in-house bank was first established, 12 entities located in one country participated in the netting process in one currency. In 2016, this had grown to 184 subsidiaries across 44 countries and 20

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Fig 2: Summary: Typical benefits of an in-house bank

- **Increased visibility and control** over group cash and transactional flows
- Streamlined **bank account structure**
- Reduction of **banking fees and margins**
- **Improved liquidity management** by centralising cash across the group, reducing cost and need for borrowing and expanding investment opportunities
- **Improved risk management** by consolidating exposures, identifying natural hedges and hedging at a lower cost
- **Improved cash and exposure forecasting**
- **Better operational controls** through consistent platforms, processes and security protocols
- **Greater ability to tackle security risks** by minimising manual processes and limiting the number of payment points within the group.

countries, totalling over 350,000 invoices and €3bn by 2015.

Orange has derived considerable value from its in-house bank, but as it has matured, there are now challenges to address. For example, constraints resulting from the use of legacy technology have prompted a refresh of the technology architecture underlying the in-house bank. As Raffi Basmadjian explained,

"The in-house bank has been a powerful means of delivering value to the group, and we now have around 93% of group companies included in our in-house netting process. This brings substantial savings by minimising external flows, while a similar proportion of group entities are included in our cash pooling structures, therefore optimising group liquidity. There are challenges to overcome, however. With a large number of group entities, the contractual elements of onboarding entities to the in-house bank have been substantial. In addition, to enable information sharing between group entities and the in-house bank, we needed to connect each entity to our treasury IT platforms as quickly as possible. Using the best of the available technology at the time, however, we reached a point where treasury was relying on more than 100 servers, which was unsustainable."

Raffi and his team have therefore embarked on a process of implementing a fully web-based solution that is easier to roll out, less costly to maintain and more secure. This has also been an opportunity to move from a 'best of breed' approach to technology deployment to achieve a more consistent approach across the group. There are functional and security benefits to refreshing the technology infrastructure. Raffi continues,

"Although we have already started to centralise payments through a payments factory, we will be able to leverage our in-house bank to make payments on behalf of group companies (POBO) which will deliver further cost, control and efficiency benefits."

Achieving operational and organisational objectives

Managing cost and maximising control are key objectives for Orange and the in-house bank is instrumental in achieving this. Raffi concludes,

"By sharing the same organisational tools across the business, we can standardise and ensure the integrity of our processes and controls, and make use of consistent, secure channels and protocols such as SWIFT and 3SKey. Furthermore, by centralising cash and investments, we can take a more systematic approach to investment management and ensure compliance with treasury policy as opposed to fragmenting assets across entities."

Finally, Raffi emphasised that the in-house bank has a key role to play in an era where tackling cybersecurity and external fraud is a priority for treasurers globally. Use of a common platform, standardised processes and controls is one key step. Furthermore, by centralising and digitising key activities such as payments, the number of points across the business where cash disbursements are made is minimised, making it is easier to ensure that users are kept up to date with emerging risks, and that controls and processes are followed precisely and fully. ■

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