

Vodafone's system vision

IAN LOCKE EXPLAINS HOW VODAFONE SET OUT TO MAKE THE MOST OF TECHNOLOGY IN ITS TREASURY DEPARTMENT.

After attending The Treasurers' Conference in 2004, I sat down with the three other Vodafone representatives at the event to discuss what we had learnt from a day and half in Wales. While we all felt fairly on top of the technical and economic aspects of the treasury world, each of us had come back with a strong feeling that Vodafone was not making the most of technology in its treasury department.

We had a treasury management system (TMS), three payment systems, two market rate feeds and a digital voice recording system, but were using them primarily to record and process transactions, with day-to-day decision-making relying on the use of spreadsheets and other tools. The group was now considerably larger and more complex than when the TMS had been installed nine years previously. We realised we were underutilising our TMS and needed not only to bring ourselves up to date, but to future-proof our systems too. In short, we wanted things to change.

Having made the commitment to change, our first decision was whether to source the solution ourselves, or use external help. For us, the benefits of keeping knowledge and passion for change in-house after the implementation of new technology outweighed the experience that a consultant could bring.

Also, treasurers like to talk about their vision and what they have achieved, so we embarked on a period of research into what other people were doing and thinking. We saw seven other treasuries with different systems and different approaches. This was fascinating and confirmed our belief that a new system was just the tip of the iceberg. With the right system, we knew we could radically change the way we

Executive summary

- Vodafone wanted to use its treasury management system to full capacity, as well as to modernise and future-proof.
- The company shared its vision in detail with its three shortlisted providers, asked them 700 questions, and invited them to showcase their solution.
- Functionality was easy to test; the commitment to being a partner and pushing the boundaries was harder.
- The effort and resource required to run a project in-house should not be underestimated. For Vodafone, senior management support proved vital.

managed transactions and communicated with banks, subsidiaries and accountants. It would also strengthen controls and enhance reporting and decision-making.

In November 2004, the research was pulled together and summarised for a project team involving all interested parties. The team agreed five key objectives for the system vision, which proved instrumental in keeping us on track and prioritising correctly. Our five objectives were:

- **Integrated systems** No separate payment system; automated

balance reporting from bank to TMS; improved communication between front- and back-offices; straight-through accounting (including international accounting standards).

- **One-touch processes** Key in transactions once only; straight-through payment processing; automatic confirmation issuing and matching within the TMS; direct access to data for the subsidiaries.
- **Add value** Focus on information not data; build for the future; reduce manual effort; make it easy for subsidiaries to comply with treasury policies; maximise use of available functionality.
- **Strengthen controls** Increase speed of confirmation process; live calculation of counterparty exposures; automation of controls ahead of Sarbanes-Oxley certification; front-ended controls to give greater flexibility later.
- **Quality support system** Dynamic relationship with TMS provider; strong internal IT support; absolutely robust business continuity plans.

Each of these five objectives carried equal weight. Vodafone was prepared to make a significant investment in technology systems and we wanted to find a company willing to work with us as a partner rather than just a supplier. The quality support objective was as important as the functionality of the other four. The potential of one-touch processes was huge: our foreign exchange process (from deal entry, through confirmation and payment to reconciliation and accounting) had 20 manual interventions under the old treasury management system; we now have five and the dealers and accountants can concentrate on adding value.

The objectives were mapped to a diagram showing every process, interface and communication link we would want in a perfect treasury world (see Figure 2). We now had a prioritised system vision and were ready to talk to potential system providers. Adopting fast-track system selection, we decided to approach just three companies to include on a shortlist. Vodafone had underutilised its existing TMS, whose supplier automatically made it to this list; the choice for the two remaining places was more difficult.

Rather than trawling through every system of every size, we referred to our research, listened to treasury contacts, read the available literature and made an informed decision. In January 2005 we hit three chosen providers with 700 questions, shared our vision with them in detail and invited them to showcase their solution in March 2005. A team of five from our front- and back-offices undertook the detailed review of written responses and spent long days in presentations digging into every aspect of the systems.

We found that functionality was easy to test. What was more difficult to assess was how the system providers would deliver on their commitment to be Vodafone's partner and push the boundaries of their systems. For us, the system with the richest functionality which also gave us the greatest confidence in willingness and ability to evolve was eTC, provided by City Financials. By the beginning of May 2005 we had announced our decision, contracts were signed a few weeks later and installation took place in June.

Off the shelf, we knew eTC would not do everything we wanted but was the closest fit to our requirements, and we commissioned City Financials to develop a number of areas. Given Vodafone's system preparations for FRS 39 *Financial Instruments: Recognition and Measurement* were already at an advanced stage, a more complete FRS 39 solution was needed from eTC to take us further. In addition,

more flexible counterparty-risk reporting tools, equity transaction processing, real-time Swift interface for payments and confirmations (including a matching engine within eTC) and yield analysis tools were also required. At the same time, we needed to get access to Swift and chose the Member-Administered Closed User Group (MA-CUG) route, which offers direct corporate membership of Swift through a bank sponsor. After going out to tender, we chose Barclays as sponsor as it could process the range of message types we required and was competitive on price. At the time, we were surprised at the restricted services some banks offered corporates who wanted to link into Swift. However, we now have our own server and communication equipment and our own Swift code. Most of our messages are routed through Barclays, which essentially acts as a post office for our Swift messages.

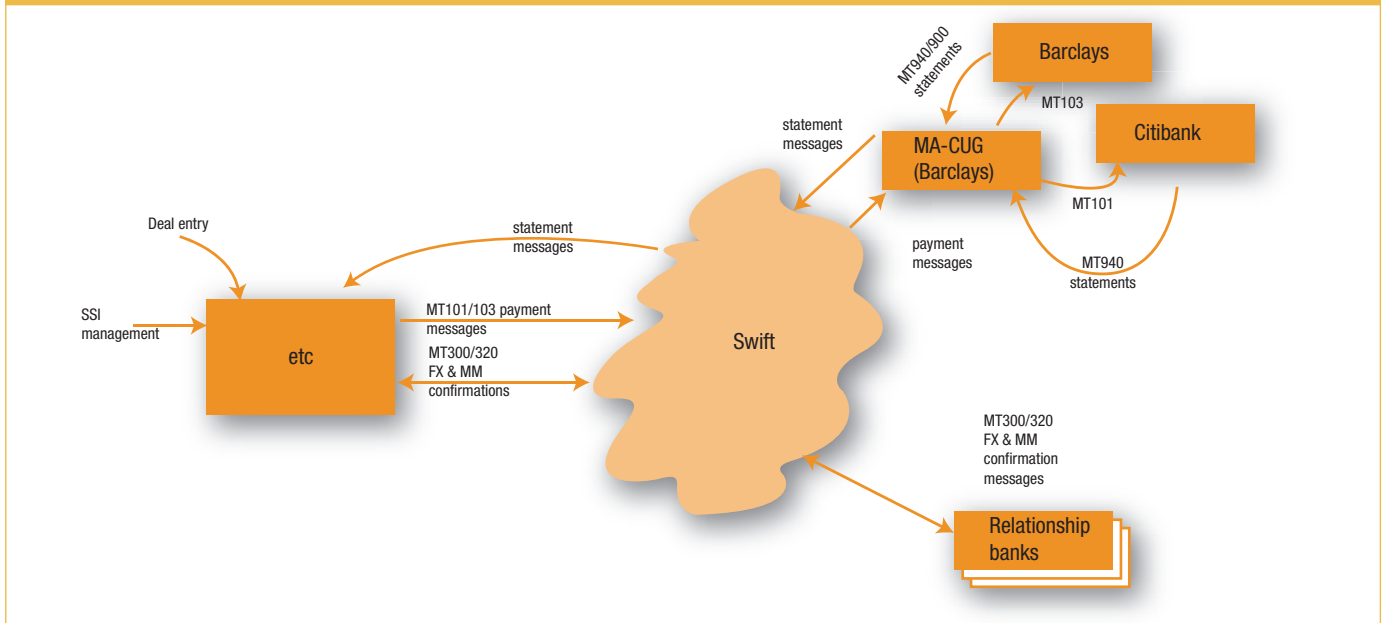
We saw the Swift element of the vision providing a number of ultimate benefits: true straight-through one-touch processing of payments and confirmations and related strengthening of controls; collection of statement information from all bank accounts around the globe through a single route; and preparation for payment factories. The Swift organisation is very keen to develop the corporate side of its business and this is an area we shall be watching closely. Getting ready for Swift was a challenging process but now we are there, we want to get maximum value out of it. SMA Software & Consulting provided crucial implementation and ongoing support relating to Swift, ensuring we reached go-live status on schedule.

WHERE ARE WE NOW? The easiest way to explain what we have achieved with the new system is to describe our daily dealing and reporting activity (see Figure 1). Overnight, treasury bank account statements are received via Swift and uploaded automatically into eTC, ready for the back-office to complete electronic bank reconciliations and for the dealers to assess their opening positions. Cash position screens within eTC show expected transactions for the day, including what-if? transactions entered by the dealers. Once the dealers are satisfied with their plans, they complete transactions with banks (having checked up-to-the-minute counterparty exposure information) and save the deal. Another dealer checks that the economics of the deal have been entered correctly, completing the deal entry process. Within a minute, MT300 or MT320 confirmation messages are sent via Swift to the bank. A short period later and the confirmation is received back from the bank, automatically matching in eTC if correct, thereby allowing settlement of the deal to be released to the payments queue.

System controls around standard settlement instructions (SSIs) involve individuals from three departments in their creation and modification. Only the SSIs of relationship banks and other approved treasury counterparties may be stored within eTC and consequently the dealers are authorised to make payments to these entities without further approval. All other payments are settled directly by our operating companies or by a shared service centre which also falls under the responsibility of the Group Treasurer. As a result of restricting treasury to only settling treasury transactions, once deals are entered and confirmed, payments can be released by the dealing desk with no need for the involvement of anyone else.

Immediately on releasing a payment, a Swift MT103 or MT101 message is sent through our Barclays MA-CUG to Barclays or Citibank (treasury's bankers) instructing them to make the payment. Within a minute we have confirmation that the message has been accepted by Swift and sent to the bank. Usually within another minute confirmation is received that the bank has actioned the request and taken funds from our account. Both feedback items are

Figure 1. Daily dealing and reporting activities



imported automatically into eTC and reported on the payments screen for the dealers to monitor. As the payment includes an eTC reference that is reported on the statement, reconciliation within eTC is vastly simplified.

On saving a deal, accounting entries are generated and posted automatically based on rules predefined by the back-office. For internal deals, eTC will populate both companies' accounts on the input of a single deal. IAS hedge-effectiveness calculations can be set up and run in batches. Retrospective effectiveness testing has been developed and tested and, once prospective testing is finalised and implemented, our eTC environment will be able to complete a wide range of accounting processes (IAS calculations, accruals, multi-currency reporting, capitalisations, revaluations, year-end processing and so on).

Changing systems has also allowed Vodafone to do the following:

- record its share buyback transactions more fully, automatically generating stamp duty and brokerage fee values and recording the number of shares and share price against each transaction together with market volumes and benchmark pricing tables;
- plan to streamline the management of intragroup debt by using call accounts rather than facility drawings;
- record futures transactions;
- produce immediate competitive performance reports on our banks; and
- most importantly, do this through one user application.

WHAT HAVE BEEN THE LESSONS? Running the entire project in-house has been difficult but rewarding and we would do it the same way next time. It has generated real enthusiasm for change and allowed Vodafone to retain the knowledge to feed that energy. However, it has also taken a huge amount of resource and key lessons would be not to underestimate the effort required and to invest in specific project management resource to ensure all work streams progress as planned. That said, the front-office aspects of eTC were delivered on time and to budget. Training for the New York marathon was not, however, delivered according to plan, but it was a lovely day for a long walk with 37,000 other people.

Other factors contributing to success include senior management support (notably from the Group Chief Financial Officer, Group Treasurer and Group Director of Financial Reporting), the supplier relationship and quality IT advice. We have funded a considerable amount of development which City Financials has undertaken in a generic way, benefiting its product as much as Vodafone. We have made a financial and operational commitment to eTC, so it would be disappointing to not continue the vision and develop further areas. For this to work, both parties need to deliver: we must provide clear specification of Vodafone's needs, and City Financials must deliver within the quoted period and cost.

As for IT, Vodafone is fortunate to have a German subsidiary responsible solely for hosting the group's systems. It is built with resilience in mind and staffed by experts who advised on server configurations, controls and disaster recovery plans. Having this expertise available internally enabled treasury to concentrate on getting the functionality to function.

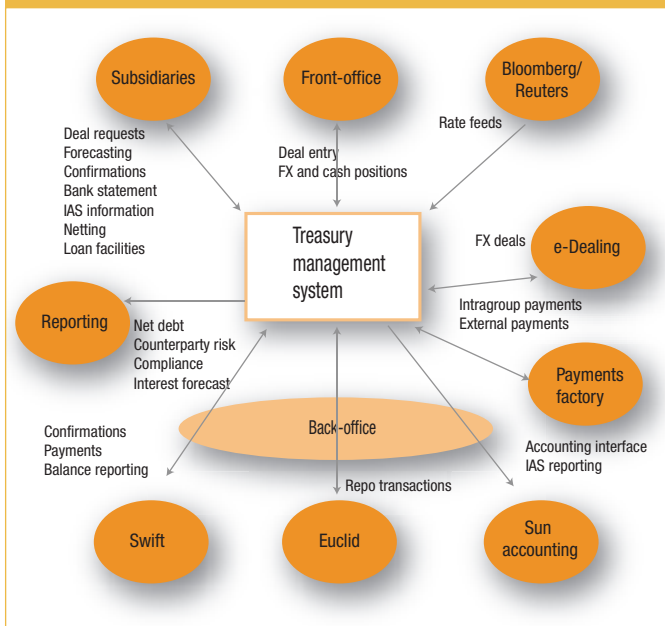
Inevitably issues arose which had not been foreseen. Prediction of such issues can be best managed by ensuring everyone is fully engaged at all times. This includes those designing, implementing, using, controlling and authorising use of the system.

The biggest issues that affected delivery at Vodafone late in the day were around payment security. Historically, management is very comfortable with the controls surrounding Vodafone's standalone bank payment systems, but using Swift as a communication tool brought all those controls within eTC. With no final approval required as a result of front-ending the controls around deal entry and SSI management, additional safeguards were needed to protect payment files from being intercepted between eTC and Swift, and also to encrypt SSI data within eTC, causing a delay in reaching go-live status.

WHAT'S NEXT? Getting to where we are today has not been a smooth ride. After nine months of change, our systems will now have a period of relative stability. That said, projects we still need to complete, or investigate the viability of, include:

- accounting and subsidiary access roll-out, so our subsidiaries can

Figure 2. Vodafone Treasury System Vision



- service, for futures statement reporting and reconciliation, and for money market fund reporting and confirmation;
- using intra-day receipt information delivered through Swift to update cash positions automatically and highlight which forecast transactions are still outstanding that day;
- dynamic link to market rate information providers to provide continuously updated market pricing, valuations and money market fund returns and sizes from within eTC, rather than relying on semi-automated uploads;
- use of mobile technology to report key metrics (for example, net debt figures or a bank's counterparty limit usage) from eTC to users' phones when out of the office;
- development of eTC's existing netting capabilities and link to a new global enterprise resource planning system that Vodafone is likely to be rolling out;
- electronic dealing tools operated from within eTC rather than manually interfacing with e-dealing platforms.

Can we meet our five objectives? We already have. Will all of our outstanding projects be completed? No, we suspect not, but each one will take Vodafone closer to its overall goal of having a one-stop system shop approach to treasury management, which, incidentally, is contrary to our normal method of shopping around for treasury business.

- request, monitor and report on transactions from a single source;
- greater usage of Swift: for repo and commercial payment confirmations, to swap reset confirmations, to collect bank balances from around the globe, to distribute bulk payment files through Swift's FileAct

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