

Mastering In-house Banking

Treasury meets Legal

11 December 2024

Orchard Finance, Maarssen

Introduction



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“ Getting to know the
In-house Bank from an
operational and legal
perspective ”

Agenda

1 Introduction 15.00 - 15.30

Introduction to an In-house Bank

2 In-house Bank part I: Core services 15.30 - 16.00

*Long term IC financing
Cash pooling
IHB account, short term IC financing*

3 Break 16.00 - 16.15

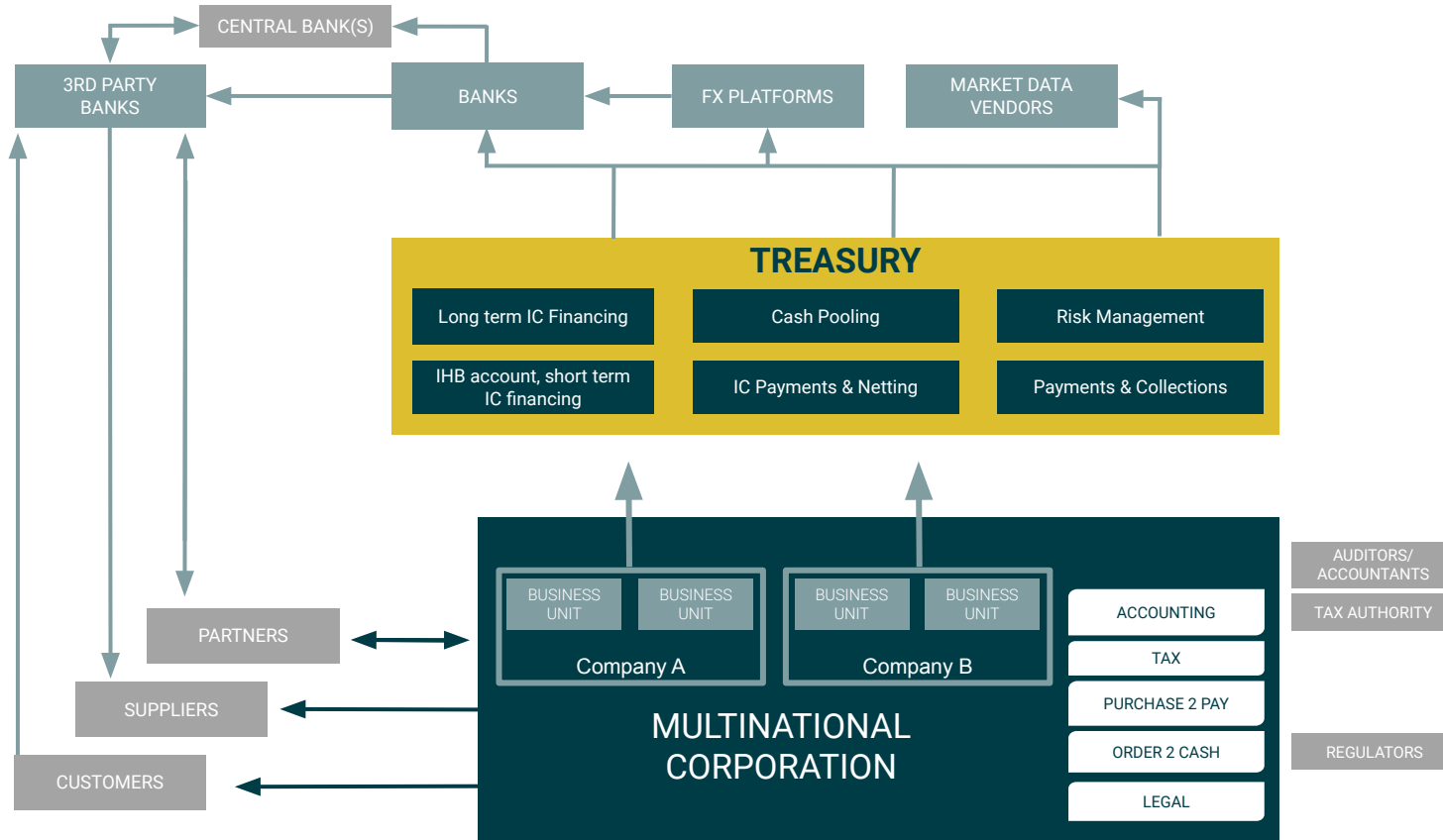
4 In-house Bank part II: Core services - continued 16.15 - 16.45

*Risk Management
IC payments and Netting
Payments on behalf of and collections on behalf of
Summary legal & best practices*

5 Client case: Würth International 16.45 - 17.30

6 Network drinks 17.30 - 18.30

Treasury at the heart of a corporate



Introduction to an In-house Bank

An In-house Bank is tailor made and differs for each company



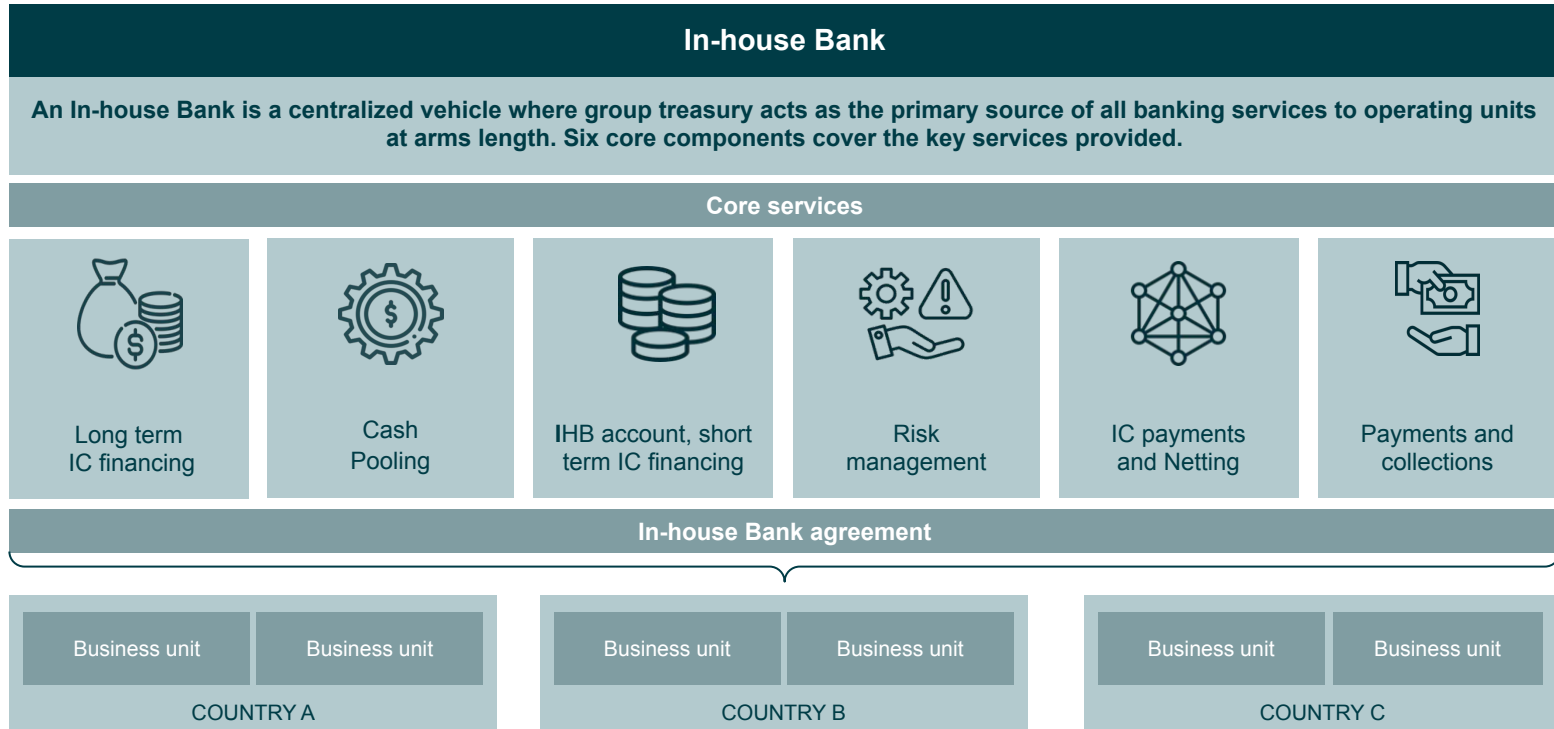
“An In-house Bank is a financial management structure within a company that centralizes its cash management and banking functions. Essentially, it acts like a bank for the company’s subsidiaries, allowing them to manage their financial operations more efficiently”

An In-house Bank acts as a bank, but it is not a bank: various arrangements needed

Implementation requires cross functional alignment, clear objectives, scoping and planning

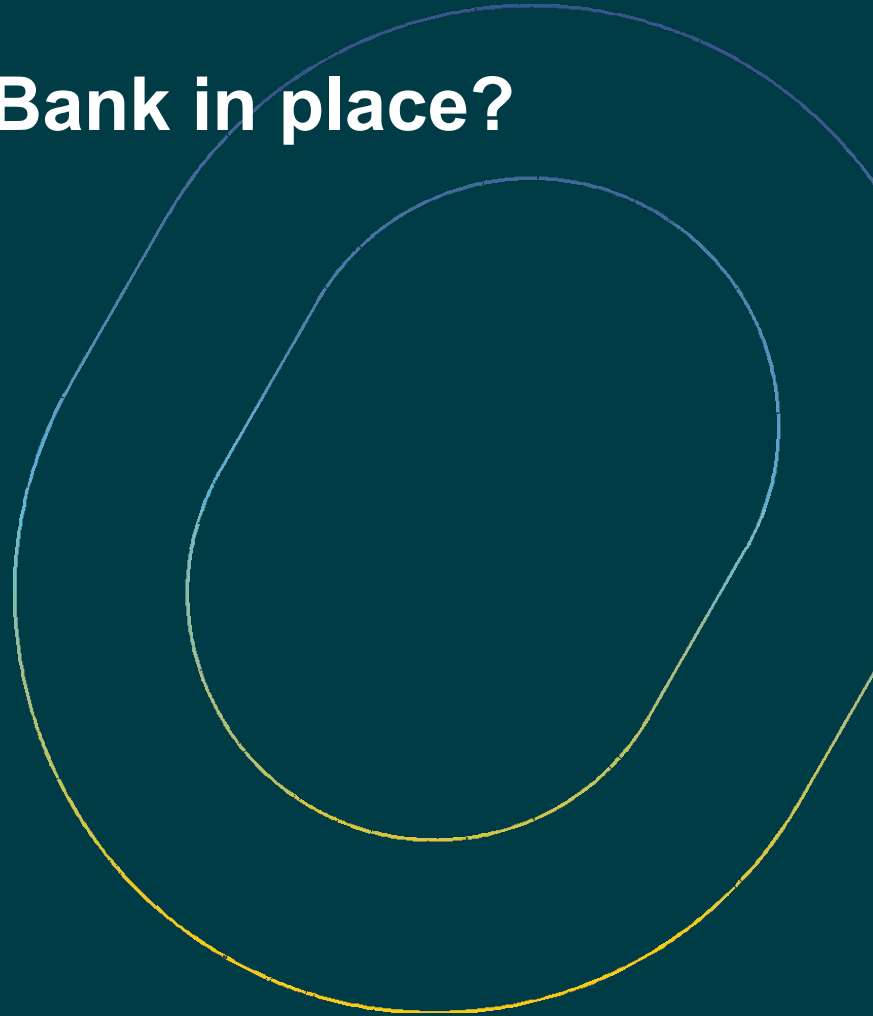


In-house Bank - overall picture



Do you have an In-house Bank in place?

Join with your mobile by scanning
below QR code:



Redefining corporate treasury: The power of in-house banking

In the face of very challenging macro-economic developments, the need for an automated treasury function is more urgent than ever. How can in-house banks contribute to this goal and increase efficiency, improve headquarter control and lower costs?

Deutsche Bank

When an In-house Bank Makes Sense

Using your company's own resources for financing, an in-house bank (IHB) is a cost-effective way of consolidating your treasury functions — such as funding, FX and cash management — into one central entity rather than having each subsidiary work through a different local bank.

Association for Financial Professionals

“In-house Banking has emerged as an increasingly important tool for companies to streamline some of their key financial operations and minimize risk.”

KPMG

How the components of an in-house bank can benefit organizations of all sizes

November 06, 2023

An in-house bank can be a formidable tool to help organizations optimize working capital. Treasurers for organizations of all sizes can benefit from adopting some of the fundamentals of the in-house banking model.

JPMorgan

Why Implement an In-house Bank? Advantages, Steps and Consequences

Treasury is often set up as and considered to be a service centre, so the idea of an in-house bank (IHB) is not far-fetched. It can offer services comparable to banks and can add great value to the organisation. The move towards in-house banking is generally seen as positive, but this, of course, depends on the individual corporate's situation and setup. There are qualitative and quantitative benefits that need to be assessed according to the entity's circumstances. The commonly-understood benefits are highlighted below.

The Global Treasurer

Benefits of an In-house Bank



Centralisation / control



Cost Efficiency



Flexibility of Financing structures



Improved Visibility



Enhanced Risk Management



Enhanced Treasury Function

Operational versus legal perspective



- Focus on streamlining and optimising processes
- End to end process; forecast, actuals, and accounting
- Focus on efficiencies and cost optimisation
- Reduce dependencies on external banks
- Creating center of excellence
- Fit for purpose systems
- Clear policies and centralised monitoring
- Operational guidelines need to reflect agreed legal arrangements
- Local regulations may impact daily operations differently across regions/countries
- Internal communication
- External communication

VS



- In-house Bank is not a legally defined term
- No license/governmental approval required
- Legal aspects to be agreed between the IHB and Participants
- Aspects to be documented depend on type of arrangements
- Local (tax) law may affect type of services that may be offered
- Participant takes initiative to use a service

Ensure alignment between operational procedures and legal requirements

Please note that the tax implications and considerations related to an In-house Bank are out of scope.

Documentation of an In-house Bank

Reasons for documenting

- Clarity about relationship/procedures
- Mitigation of risks
- Tax requirements
- Personal liability of directors
- Discharge of obligations
- Accounting

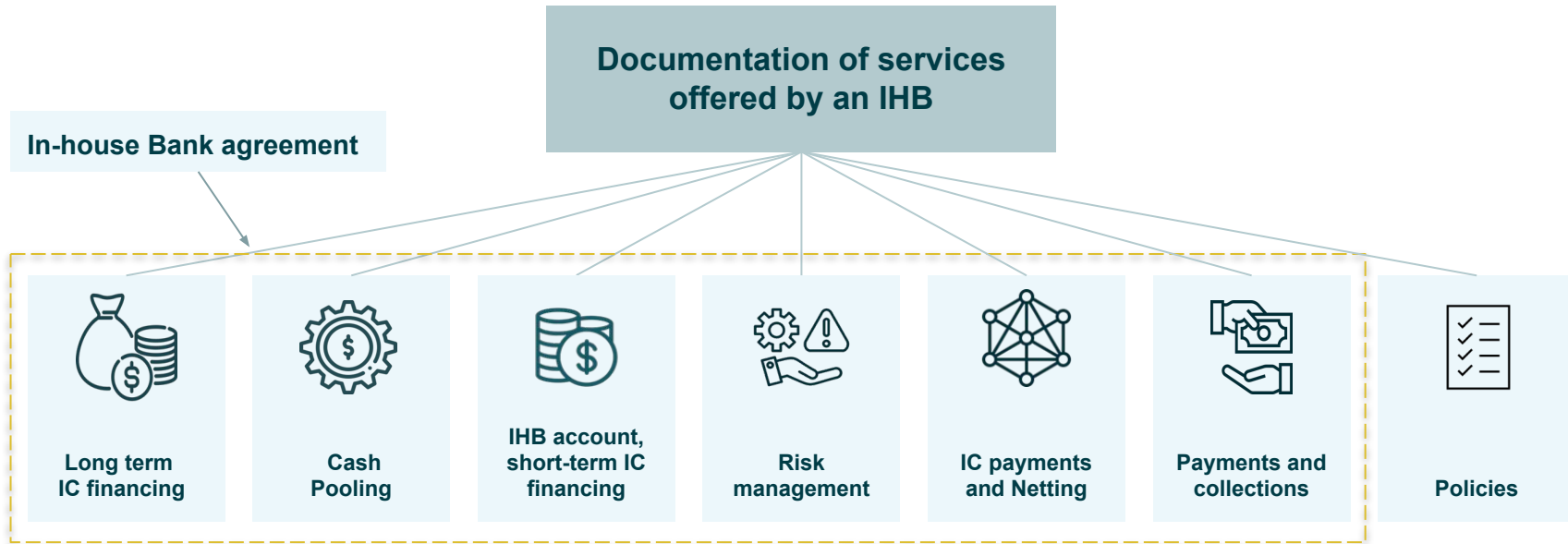


Ways of documenting

- Agreements for each service
 - Multiple agreements for each Participant
 - Could be conflicting agreements
 - Cumbersome to execute/amend
 - Record keeping
- One In-house Bank agreement

In-house Bank Agreement (1/3)

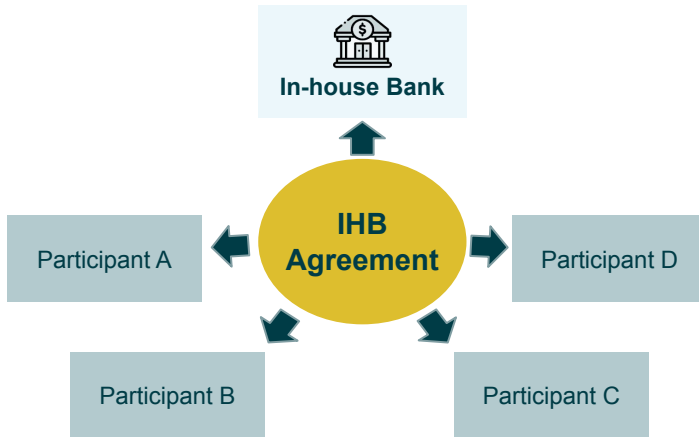
An in-house bank agreement is an agreement between an In-house Bank and its group companies that contains the terms and conditions of the services provided by the In-house Bank to such group companies. Such agreement typically relates to all services provided by the in-house bank and replaces as much as possible bilateral agreements.



In-house Bank Agreement (2/3)

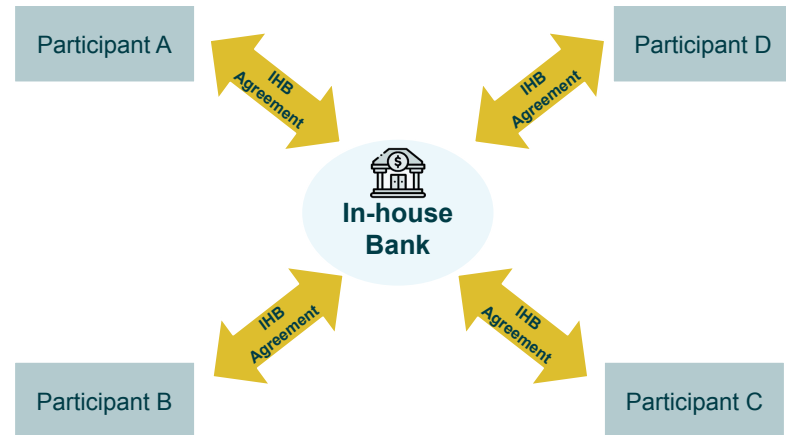
Multiparty agreement

- (material) Amendments require consent of all parties
- Adherence letters for new entities
- Tend to be static in practice and easily outdated



Bilateral agreement

- Execution of simple bilateral service agreement
- Services included in separate exhibits
- Exhibits may be unilaterally amended by IHB
- Very flexible and easy to amend



In-house Bank Agreement (3/3)

General Terms and Conditions

Typical elements:

1. General

- IHB acts as service provider, limited liability
- Use of third parties
- Calculations, evidence of records
- Fees, taxes
- Governing law
- Amendments
- Termination

2. In-house Bank Account

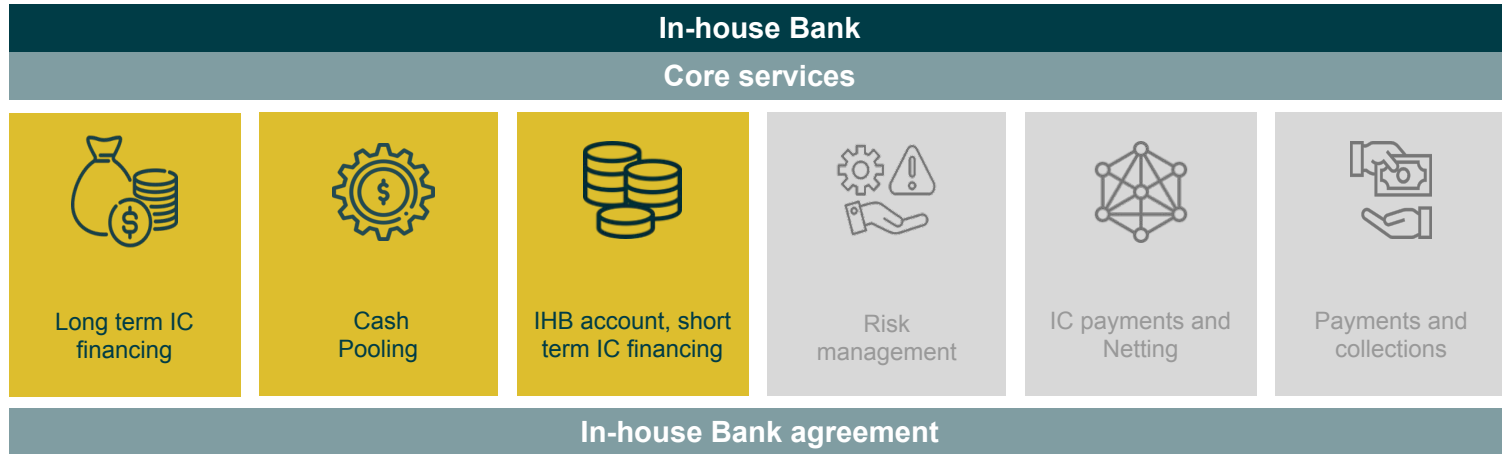
3. Terms applicable to various services

- Cash sweeps
- Intercompany payments
- Pobo/Cobo, etc.



In-house Bank part I

In-house Bank core services



Long term IC financing

Long term IC financing (Term Loans) apply when one entity within a corporate group lends money to another to reduce external borrowing costs and to optimise the debt/equity mix. It allows multinational companies to allocate funds where needed internally, often with tax and operational benefits



In-house Bank

Participant A

Participant B

Participant C

Participant D



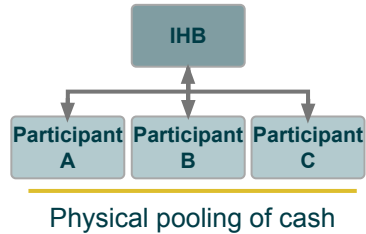
- No external funding by entities, only IHB has external financing
- Central bank relationship management
- Periodic interest payments
- Limits / internal covenant monitoring



- Bilateral agreement or part of In-house Bank Agreement
- Arm's length terms
- Periodically renewed
- Operational covenants may mirror external bank covenants
- Be careful with events of default!

Cash pooling

Cash concentration (ZBA)

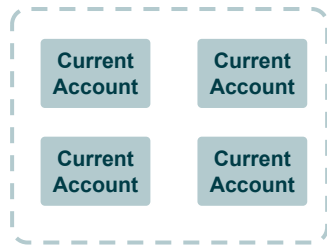


- Participant no longer holds cash in bank account but IHB is counterparty
- Cash transactions are mirrored on IHB accounts
- Limit management on IHB accounts



- Participant is party to cash management agreement with bank
- In-house bank is sole contract party of bank
- Termination by Participant
- Check liabilities in bank agreement!

Notional Pooling



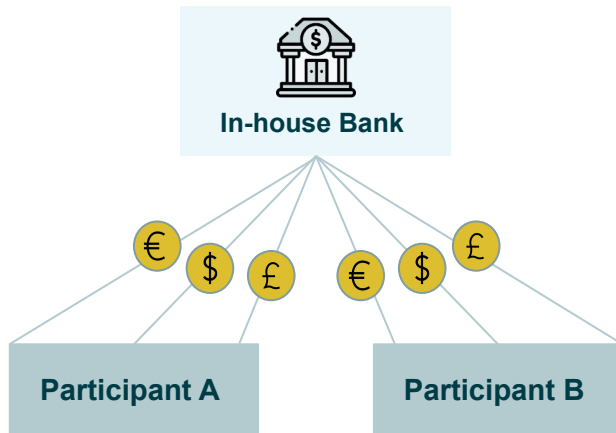
- Interest and balance compensation
- No movement on IHB accounts
- No intercompany loans



- No internal legal arrangements needed
- Arm's length allocation of interest
- Joint & several liabilities
- Set off right bank
- Pledged bank account

IHB account, short term IC financing

An IHB account is an internal account, not managed by an external bank, that entities within a corporate group maintain to settle transactions with their In-house Bank






- Account to administer internal transactions and loans
- Denominated in multiple currencies
- May include overdraft provision to allow 'negative' balances



- Bilateral agreement between IHB and Participant
- Arm's' length terms, interest bearing
- Could be based on Dutch General banking Conditions
- Information about material changes, creditworthiness / liquidity position
- Balance limits determined by IHB
- Balance no 'structural' character
- Termination rights

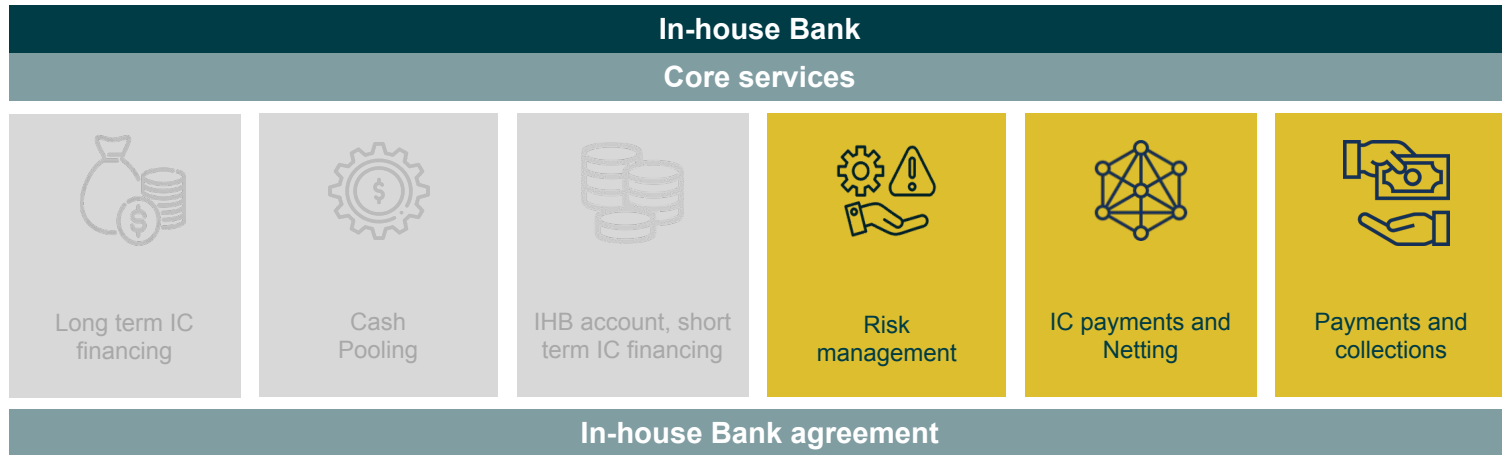
Systems to facilitate core IHB services

Service	 Long term IC financing	 Cash Pooling	 IHB account, short term IC financing
<p>Corporate systems</p> <p>TMS Best of Breed ERP Excel</p>	<ul style="list-style-type: none"> Facilitate the process and workflow for intercompany loan request to IHB Capture of loans and its characteristics Interest calculation Documentation Reporting headroom 	<p>Zero-balancing:</p> <ul style="list-style-type: none"> Initiate cash sweeps Create and deliver to ERP: IC bank statements and/or GL information Tracking IC loans from ZBA Earmark cash pool participants and reporting <p>Notional pooling:</p> <ul style="list-style-type: none"> Earmark cash pool participants and reporting 	<ul style="list-style-type: none"> Set-up and maintenance of IHB accounts including authorisations Cash flow forecast Working capital management Balances reflected from a Treasury/IHB perspective and (optionally) for the entities Interest calculation Including currency conversions
<p>Banking tools</p>	<ul style="list-style-type: none"> Limited 	<p>Notional pooling:</p> <ul style="list-style-type: none"> Monitoring of positions/limits Interest calculation and settlement Notional pooling benefit <p>ZBA:</p> <ul style="list-style-type: none"> Automated balance transfers Tracking IC loans from ZBA 	<ul style="list-style-type: none"> Virtual accounts

Break

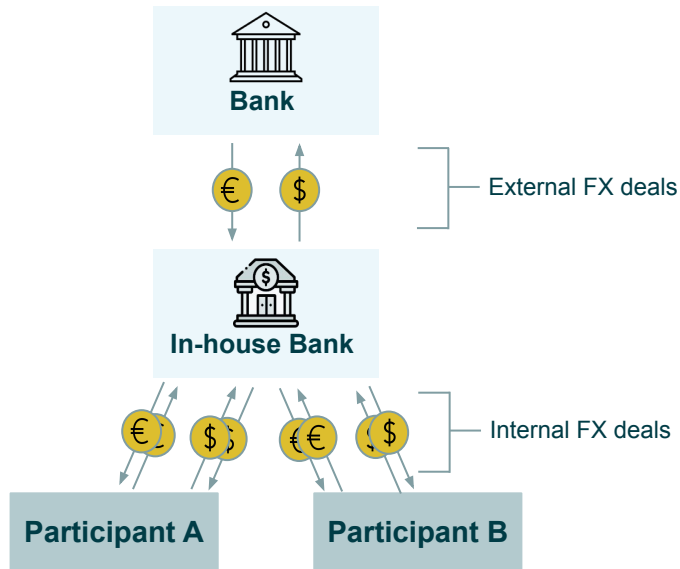
In-house Bank part II

In-house Bank core services - continued



Risk management

The IHB acts as counterparty for managing the participants financial risks, e.g. FX risk



- Centralized risk management
- IHB has connection, communication and agreements with banks and FX trading platforms and/or brokers
- Settlement external deals over bank accounts
- Risk management policy
- Netting / natural hedges internally
- Internal trades (FX, guarantees etc)



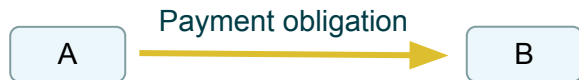
- Define terms of internal hedge, eg ISDA Long Form
- Confirmation of hedge
- Close-out netting
- Settlement of FX payments on IHB Account

Intercompany payments

Intercompany payments via the In-house Bank take place when one participant within the group pays to another participant within the group without using external bank accounts

Before Internal Settlement

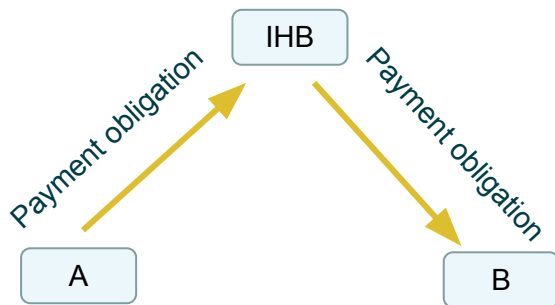
Payment between bank accounts



- Payments related to operational intercompany invoices (AP/AR)
- Other payments include: management costs, guarantee fees, allocation of cash pooling benefit, interest on loans etc
- Internal currency accounts debited and credit based on internal invoice

After Internal Settlement

Internal settlement on IHB accounts

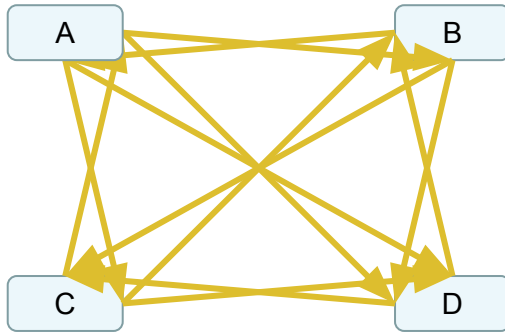


- Intercompany payment with a bank account results in a discharge of an obligation by law
- Intercompany booking to an internal account via a TMS does NOT result in a discharge of the obligation!
- “Payment” to an IHB account requires approval of the creditor and IHB in order to be effective: instead of participant A, IHB will become the debtor.
- Discharge of an obligation via IHB account, not by agreement
- Formal settlement and documentation required

Multilateral Netting of IC payments

Multilateral netting is an arrangement among participants where each participant makes payments to, or receives payment from, a netting center (IHB) for net obligations due from other participants in the group.

Before Netting

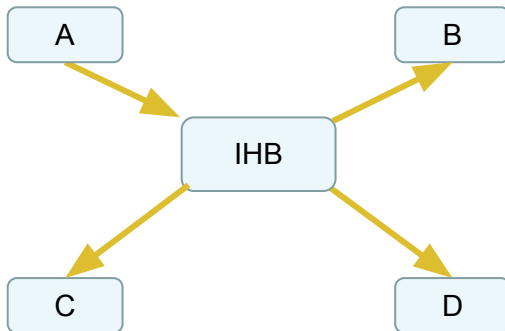


- No individual IC payments via IHB account
- Periodic net settlement of multiple IC payments
- Settlement can be via external bank accounts or IHB accounts



- IHB calculates balance of various payments and receivables
- Conversion into functional currency of Participant
- Booking on IHB Account/payment to bank account should lead to discharge of all payments and receivables included in the calculation.

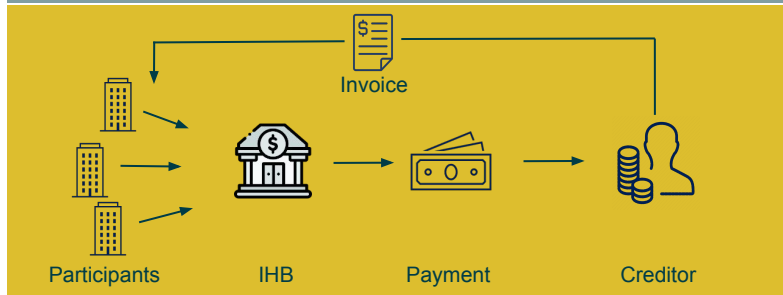
After Netting



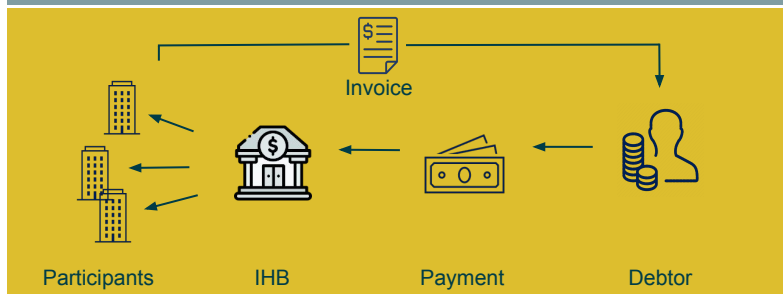
Payments on Behalf of / Collections on Behalf of

POBO (Pay On Behalf Of) and COBO (Collect On Behalf Of) are financial arrangements where an IHB manages payments and/or collections for participants. These arrangements centralizes transactions, improving efficiency and reducing costs.

Payments on Behalf of (POBO)



Collections on Behalf of (COBO)






- Centralized management of payment process
 - Timing of release (CFF)
 - Routing
 - Authorised signatories
- IC positions and statements
- Bank account rationalization
- Data analysis
- COBO - no receipt/cash flow on entity bank accounts



- Payment by a third party (IHB) lead to discharge in all jurisdictions
- Collection by IHB instead of Participant to be agreed by third party
- Remittance advice to indicate details of obligation paid
- IHB should not become a counterparty of the third party.

Systems to facilitate IHB products & services

Services	 Risk Management	 IC payments and Netting	 Payments and collections
Corporate systems TMS Best of Breed ERP	<ul style="list-style-type: none"> Facilitate the process and workflow for deal request to IHB Capture deals back-to-back (Multibank) trading portal including connectivity Deal valuations and interface to accounting system Documentation Reporting 	<ul style="list-style-type: none"> Support the periodic netting process from invoicing to settlement Facilitate the internal payment processes over the IHB accounts including authorizations 	POBO System <ul style="list-style-type: none"> (Standardised) payment functionality for (re) routing and/or optimisation and format conversion (advanced) screening of payments (accounting) reconciliation COBO System <ul style="list-style-type: none"> functionality for (standardised and) centralized processing of statements (accounting) reconciliation
Banking tools	<ul style="list-style-type: none"> Proprietary trading portals 	<ul style="list-style-type: none"> Settlement of external payment from netting cycle 	<ul style="list-style-type: none"> (Virtual) accounts XML/ standardized formats in different regions and currencies

Summary legal aspects & best practices

Summary legal aspects In-house Bank

Relationship In-house Bank - Participant

- No specific legal regulations
- In-house Bank is a service provider
- Type and terms of services determined by In-house Bank
- Use of services initiated/authorized by Participant

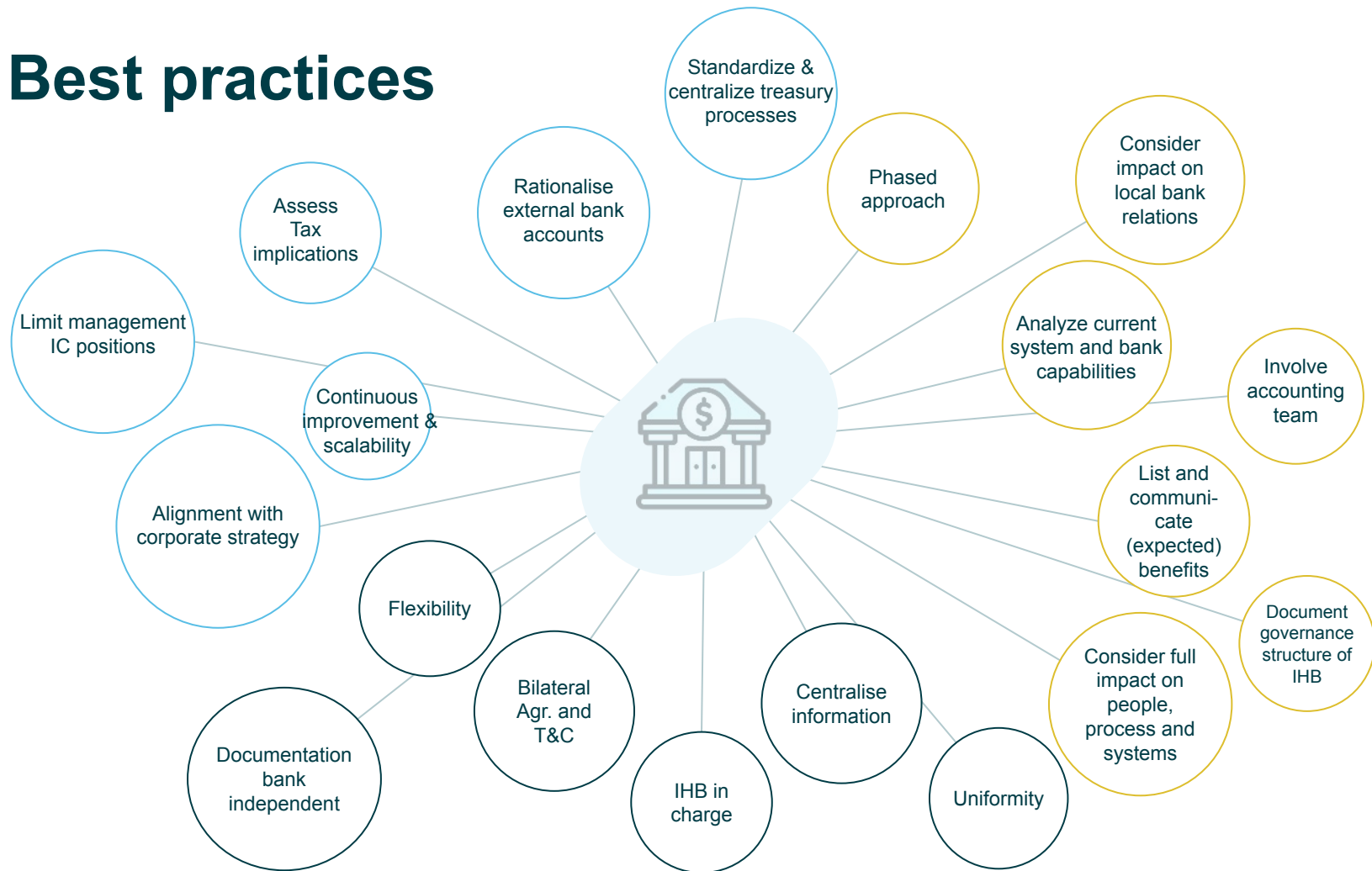
Centralisation of risk

- In-house bank takes over credit risk of Participants on group companies
- In-house bank account is core element of IHB
- Information creditworthiness/liquidity position
- Termination rights

Settlements

- No discharge without agreement

Best practices



WÜRTH  GROUP

Client case

WÜRTH FINANCE INTERNATIONAL B.V.

Würth Group

A Family Business

- WORLD MARKET LEADER
specialist for assembly and fastening materials
- More than 87,000 employees worldwide
- Driver of success: DIRECT SELLING + MULTI-CHANNEL STRATEGY
- More than 4.1 million CUSTOMERS worldwide
- The product range comprises over
1 million PRODUCTS
- EUR 20.4 billion in annual sales 2023



Würth Group

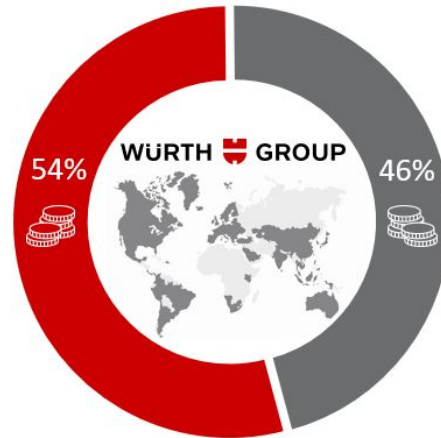
More than 400 companies in 80 countries



Würth Line

Production and distribution of Würth branded products

Share of sales in percent



Allied Companies

Production and trading companies operating in areas related to the Würth line core business

WÜRTH FINANCE INTERNATIONAL B.V.

Würth Group Treasury Organisation

4 Treasury Centers:



WÜRTH FINANCE INTERNATIONAL B.V.

Treasury Center & Inhouse Bank



>80 employees
in the Netherlands and in Switzerland



2 locations
in Den Bosch, the Netherlands and
Rorschach, Switzerland



>400 Würth group companies
Account relationships with more than
400 Würth group companies in
over 80 countries



ZB cash pools in 12 currencies
with 240 participant accounts



540,000 payment transactions
with a volume of
EUR 8,800 million



15,900 fx deals
with a hedging volume totalling
EUR 10,700 million

WÜRTH FINANCE INTERNATIONAL B.V.

Treasury Center Functions

- Group financing
- Cash/liquidity management
- Financial risk management
- Investor relations
- Banking policies
- Payment Factory, central regulation of supplier payments
- E-Payment solutions (collections)



WÜRTH FINANCE INTERNATIONAL B.V.

Inhouse Bank Journey

1978

Foundation of Würth Finance

Objective: Reduction of high intercompany AR of central purchasing units
Intercompany factoring (netting) via "current accounts" – on paper

1998

Implementation of SAP for centralized payment processing

2003

Implementation of Payment Factory based on SAP, introduction of IHB accounts using SAP debtor accounts



More and more services were added

Inhouse Bank Services



Inhouse Bank accounts
(current accounts)



Loans & Deposits



External and
intercompany payments



Derivatives



Intercompany
Factoring



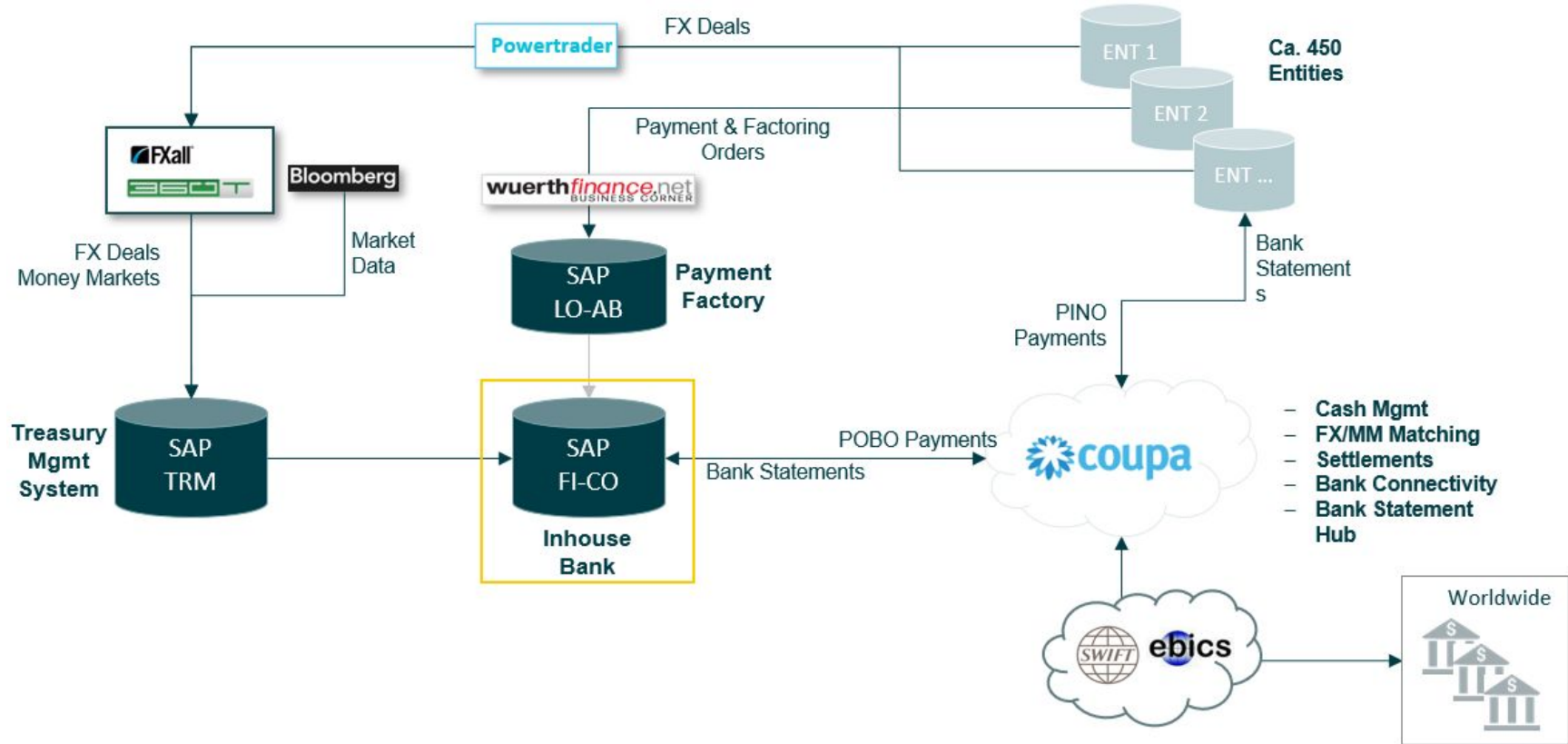
Guarantees



Cash Management
(cash pooling)

WÜRTH FINANCE INTERNATIONAL B.V.

Treasury IT-LANDSCAPE



WÜRTH FINANCE INTERNATIONAL B.V.

Inhouse Bank Agreement

Würth Finance decided to set up new IHB agreements in 2021

- Trigger: Local tax authority requirements, hundreds of individual agreements
- Objective: One standard agreement, covering all IHB services, for all companies

Structure of the Agreement

- Bilateral agreements with group companies consuming IHB services
- Framework Agreement
- General Conditions, covering all IHB services

WÜRTH FINANCE INTERNATIONAL B.V.

Treasury Center Functions

Deployment of IHB agreement:

- Replacing all existing agreements for approx. 450 entities
- FAQ document
- Obtain signatures electronically
- Status: Roughly 40% signed, completion targeted for end of 2025
- No deployment issues so far



Q & A


Thank you for participation


Let's stay in touch!



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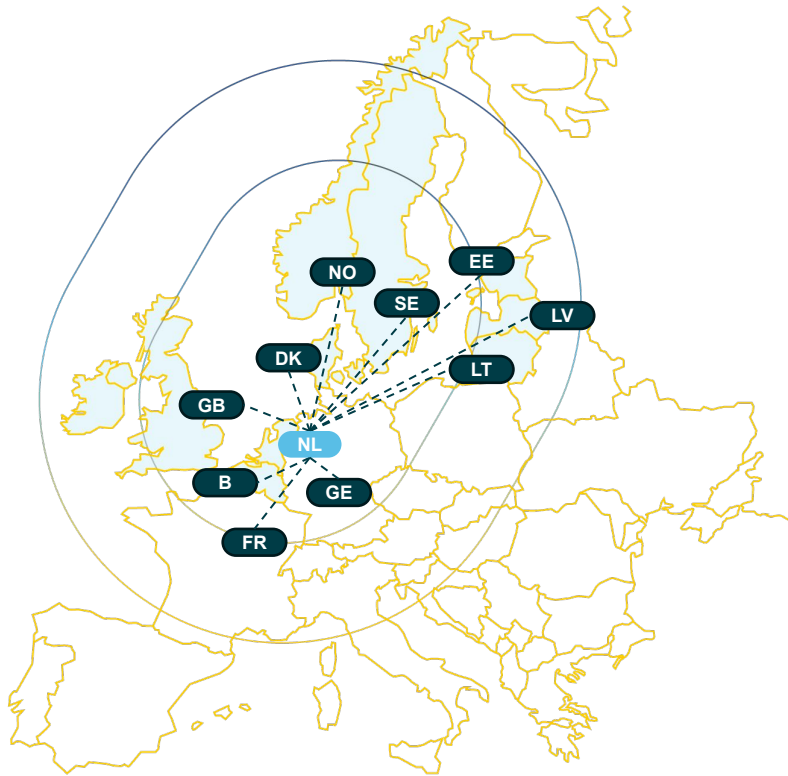
TREASURY LAWYERS

- Over 25 years of experience in treasury advice
- Broad in-house corporate knowledge
- Business focussed team player
- Pragmatic and efficient
- Master in law as well as in business economics
- Independent legal counsel since 2010
- Founder Solusius Treasury Lawyers 2015
- Focus:
 - Loan Agreements
 - ISDA Agreements
 - Supplier finance
 - Cash Management
 - In-house Bank & Payment Factory



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About Orchard Finance



20+
years active



1000+
clients



30-35
professionals



**Advice, project
management &
staffing**



Treasury



**Debt
Advisory**



**Corporate
Finance**



Risk

Evaluate this session!

