

# Roche's Breakthrough for Cash Pooling in Saudi Arabia

By Ben Poole, Columnist

**K**een to support a recently opened affiliate in Saudi Arabia, Roche's group treasury worked with BNP Paribas and the local regulator to successfully implement a first-of-its-kind cash pooling solution in the country.

Headquartered in Switzerland, Roche is the world's largest biotechnology company and an in vitro diagnostics (IVDs) market leader. The company's corporate treasury is fully centralised in Basel, supporting the enterprise's global business activities.

Cash pooling is a crucial component of how the company finances its operations. Using cross-border cash pooling structures enables treasury to drive efficiencies at a group level. However, this approach came up against a challenge when Roche opened a sales affiliate in Saudi Arabia.

Franca Aeby, Senior Cash Manager, Roche, explains: "The Saudi affiliate was importing and selling goods locally. In group treasury, we quickly realised that we needed to have an efficient funding solution for this entity. We approached BNP Paribas early in the process, as well as external tax consultants and law firms, for insights as to whether cash pooling is possible in Saudi Arabia. It was soon apparent that this was a complex area. The initial answer from BNP Paribas was, 'it's certainly not a no, but it's also not an immediate yes.'"

## Diplomacy and determination

Thankfully, BNP Paribas had already been in a dialogue with the Saudi regulator for several years, presenting in-depth explanations as to how cash

pooling works from a legal, technical, and operational perspective. The enquiry from Roche gave the bank a live example to bring into the discussions while simultaneously providing the company with an interim solution while the dialogue progressed.

"Initially, the bank was able to offer us a technical solution for moving cash one way – but perhaps not in the direction that you might be thinking of," reveals Aeby. "We were allowed to pull the funds out of the country, which is quite uncommon. Usually, you're allowed to bring in as much money as you want but are not allowed to take money out. So, this was already a slightly different set-up than we were used to in other countries where we have restrictions."

The interim technical solution from BNP Paribas enabled all cash above a certain threshold to be swept out of the

country and into the Roche cash pool leader account in the region. At the same time, the bank actively engaged with the Saudi regulator for this issue.

Naj Aktam, Head of Cash Management, Saudi Arabia, BNP Paribas, explains how the discussion was approached. “We needed to write to the regulator, requesting its approval to go ahead with the new product. Initially, the regulator came back to us with some questions because cash pooling is not a widely used product in Saudi Arabia. There is much to explain, so we went through quite a lengthy process of describing the exact working of the product. This included how it functions on a technical level, how the cash moves between which entities and when this happens. We also explained the legal framework on which the product roll-out is based.”

The discussions went back and forth through many calls and in-person meetings for approximately three years. “In the end, having explained everything and taken on board concerns the regulator had on specific points, we received the non-objection that we could roll out the product,” recalls Aktam. “There were some reservations from the regulator’s side. It was very clear in saying there were no objections to the roll-out of the product, as long as the legal entities based in Saudi Arabia were fully aware of how it works and what it means for them in terms of liquidity. There was to be no breach of any other rule or regulation, which is why we have a hard requirement for an external legal opinion.”

Despite the three years spent on the negotiations, the Roche treasury team was delighted with the outcome and relieved that the whole process had not taken longer.

“We know how long it takes here in Europe when we approach the authorities because we want to change something,” notes Aeby. “For example, we had discussions with the European Central Bank on a different topic that took a while, so

three years was relatively fast. Overall, it was a positive experience.”

From the bank’s perspective, it was the conclusion to an even longer journey, having already been in exchanges regarding cash pooling and liquidity management with the regulator for several years. During this time, they had presented the solution in detail, providing explanations about the regulatory, operational, and legal aspects.

Migjen Dauti, Senior Cash Management Sales Executive, BNP Paribas, comments that the involvement of Roche was vital in gaining the non-objection outcome. “Roche was really pushing towards the solution. They played a significant role in moving treasury forward in Saudi Arabia and the broader region because the structure is centralising cash from Saudi to Bahrain in the name of the Roche treasury entity. This clear achievement will pave the way for other corporates.”

### Getting to work

To enable the cash pooling structure in Saudi Arabia, Roche first had to obtain a legal opinion stating that the proposed pooling arrangement would not contravene the company’s internal rules and policies.

“This legal opinion had to state that our legal entity in the country is aware of what is happening, how it’s happening, and it’s not going against them,” notes Aeby.

“For me, that was always clear, and luckily it was also clear to the law firm that we were working with in Saudi Arabia. When it came to the roll-out, we have been working with BNP Paribas in other countries where we’ve had cash pooling agreements, so we were more or less familiar with the required documents.”

Implementation saw Roche making the necessary changes to contracts and opening additional accounts to create a cross-border zero-balancing cash pool with a master account in Bahrain. The resulting cash management efficiencies have been dramatic.



FRANCA AEBY

Senior Cash Manager, Roche

“We can now make much better use of the liquidity,” enthuses Aeby. “We don’t have any excess liquidity lying around in Saudi Arabia, it’s pulled out and we keep a minimal balance. This enables us to use those funds in another currency or for another country, if necessary, or for other purposes. That’s one of the most efficient outcomes, but it also helps with automation as we’ve been able to reduce the manual workload.”

### The SWIFT connection

Roche uses one ERP system for the entire company with all the affiliates using the same SAP. The company has a SWIFTNet SCORE (Standardised Corporate Environment) agreement with its core banks. This is typically between its in-house bank entity, the Swiss entity, and the bank’s headquarters or main branch in Switzerland. This set-up enables all payments to be sent out of SAP, via SWIFT, to the bank. However, in Saudi Arabia, this was not possible before this project.

“In Saudi Arabia, whoever approves the payment must be a Saudi resident or Saudi national,” outlines Aeby. “Nobody else would be allowed to release payments. If we were to send a payment message, it was impossible to show who did the second or the first approval without using 3SKey [SWIFT Secure Signature Key]. We’ve been using our SWIFTNet SCORE agreement globally without 3SKey, so we

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weren't going to implement something only for Saudi Arabia. That would have been rather technically complicated."

Fortunately, the Saudi regulator's non-objection for Roche to link its in-country accounts to its central SWIFT contract opened up the opportunity for the treasury to now use SWIFTNet without 3Skey. This enables payments to be instructed in the company's ERP, in line with its overall global set-up.

"When you think about efficiency, not just for us in group treasury, but particularly for the local entity and our shared service centre [SSC], where we have our accounts payable department, that was a huge efficiency gain and supported automation," adds Aeby.

### A dream come true

Most multinationals employ a centralised approach to global cash management. Those with a presence in Saudi Arabia would like to have a way to manage their operations there just as they do in other countries. The ability of Roche and BNP Paribas to implement cash pooling in Saudi Arabia has set an important precedent.

"Cash pooling has been a topic of interest for many of our multinational clients in Saudi Arabia," says Aktam. "Since we started implementing last year, we have quite a number of them in the pipeline that are currently either reviewing with external legal counsel or preparing for the actual document. This Roche case study opened a door that will make life much easier for many firms here, in terms of cash pooling and using SWIFTNet without 3Skey."

By managing cash in Saudi Arabia the same way as in other markets, corporates can enhance their bank account management, streamline cash flows, and add automation to processes to drive efficiencies throughout their operations.

"The efficient use of cross-border cash pooling solutions represents treasury best practice," says Dauti. "Everybody's dreaming about centralising liquidity as much as they can in a given location, whether it is then managed regionally or globally, it doesn't matter. The idea is to get visibility and control over cash, enabling them to get the best use out of it."

At Roche, the treasury's working



**MIGJEN DAUTI**

Senior Cash Management Sales Executive, BNP Paribas



**NAJ AKTAM**

Head of Cash Management, Saudi Arabia, BNP Paribas

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relationship with BNP Paribas was vital to helping them unlock this cash visibility and the resulting efficiencies. "It's essential to have a close relationship with your core banks, and with BNP Paribas it's all about co-creation," remarks Aeby. "That's always their mindset, and it is also the same for us at Roche. In this case, we relied on BNP Paribas to be the experts, to be the ones that would go out there and share our needs and requirements with everyone from consultants to the regulator, and even other corporates. They were able to get the attention necessary for our needs and to find a solution that is ideal for us and can also be applied to their other clients who may have similar requirements."

### Never stop innovating

With cash pooling in Saudi Arabia achieved, the treasury department at Roche is now examining how to continue to develop its most efficient set-up in every country where it has a presence. In certain countries, including Singapore, Australia, New Zealand, and some countries in

Europe, the team has achieved a full 'on behalf of' structure, a template it is keen to expand elsewhere.

"Ultimately, being able to do everything on behalf of is the North Star from our treasury point of view," Aeby comments. "This would mean we would have full control and visibility over cash and only one bank account to manage. Our affiliates would fully bank with the in-house bank [IHB], and the only connection to a third-party bank would be through us in treasury."

The goal of being able to centralise every activity currently remains out of reach, with certain legal and regulatory hurdles to overcome. But it is a scenario that Roche is being proactive in trying to achieve.

"This fully centralised, automated, and on behalf of model would mean that whenever we open a new entity, we wouldn't need to carry out the entire due diligence process with the bank for the entity to open a new account," concludes Aeby. "Everything can be done on behalf of and, as the IHB, we can process every transaction, all the payments and collections, and more. I'm hopeful that this may be possible one day." ■