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BP Global | BP Worldwide

BP treasury

BP's treasury team moves around \$1 trillion every year, acting as the company's in-house global bank. Having come through the downturn of 2008 and the financial challenges of 2010, following the Deepwater Horizon incident, it is now preparing itself for further uncertainty in the global financial markets

BP's treasury team has been compared to a marathon runner, highly trained, highly focused – but facing numerous obstacles along the way. Instead of tight bends, twisted ankles and the need for sheer stamina, the treasury team faces the challenges posed by changing economic conditions and events affecting business.

And, just as the marathon runner needs to be ready for a downpour or a heatwave, BP needs a treasury for all seasons, prepared for the everyday challenges, as well as the low-risk, high-impact events.

Over the past couple of years, BP has faced both the 2008 global economic crisis and the financial challenges presented by the Deepwater Horizon incident in 2010. Since then, it has strengthened its balance sheet by building significant liquidity, and regained considerable market confidence. Once again, the external financial world is facing turmoil, but this is very different from 2008. However, says BP's group treasurer from 2007 to 2011, Dev Sanyal, the company is well-prepared.

"What tipped things over in 2008 was [the collapse of] Lehman Brothers. This time, it is not one defining event, but multiple signals, linked to sovereign states," says Sanyal, who is now BP's executive vice president and group chief of staff. "The financial world is adjusting to what I call the 'new normal', with a far greater degree of market volatility. The bandwidth of possible outcomes is substantially wider now, and this brings into sharp contrast the consequences of over-achievement and under-achievement in decision-making."

Volatility is what drives trading on almost any market. It can bring both risk and opportunity. The ability to assess the risks, take proportionate action to mitigate them, and be able to spot and take advantage of opportunities, when they arise, is central to effective, efficient and successful financial management. The centralised position of BP Treasury gives it clear line of sight to the financial exposures of the whole group, something that has become even more important in the current uncertainty. "In a volatile environment, actions can cause exaggerated reactions," Sanyal says. "You have to have a clear idea of their intended and unintended consequences. I spend most of my time thinking of the latter. There is a need to be nimble and agile, prudent but not conservative, if you are not to get caught out, or be left behind. This is the challenge right now."

BP Treasury has multiple short- and long-term financial functions, including raising debt through bonds, managing corporate risk by hedging the group's foreign exchange exposure, providing insurance and managing the group's pensions fund. But its primary remit is to act as BP's in-house global bank, ensuring it has the right funding, liquidity and currency in the right amount on the right day, and in the right place. This centralisation is key to the way that BP's treasury team interacts with the outside world, according to deputy group treasurer, Nick Bamfield. "The typical model that we use, wherever we can, is to fund ourselves centrally," he explains. "This allows us to use the strength of the group's balance sheet and credit rating, so that we can issue directly into the global direct capital market. Banks tend

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to have higher costs of borrowing, so this allows us to go directly to investors issuing bonds."

BP Treasury moves around \$1 trillion a year, roughly the equivalent of the Russian economy; issues an annual \$10-15 billion of debt in a variety of different markets; and manages some \$40 billion in pension funds. Dim sum (China), Samurai (Japan), Yankee (US), Maple (Canada) and even Kangaroo (where else but Australia?) are the financial world's nicknames for some of the bonds it has issued on behalf of the group.

"We have two goals when issuing into the bond market," Bamfield continues. "First, we want to be seen as an issuer of choice, not need, and second, we want to maximise our opportunities, so we diversify the markets we issue into."

BP's global asset base requires global capability. Its centralised treasury function has around 200 people in London, Singapore, Houston and Chicago. This structure enables it to think globally, but react very locally in the markets. Keeping BP's treasury leadership informed, at the right time and to the right depth, of what is happening across world financial markets is key to determining the right action. As well as executing BP's financial trading needs and decisions, the 30-strong treasury trading team keeps abreast of world economic news, whether it's the latest statement by Germany's chancellor, or the imminent collapse of a bank, and their implications, if any, for BP.

Nick Slater, vice president, treasury trading says: "Our primary responsibility is to execute the corporation's orders and to give advice. We know exactly where the group's cash is at any time and, therefore, should developments take place that could affect debt markets, we are there to inform straight away on whether we need to make any interventions."

To make those fine judgments requires professional financial capability of the highest standard. There was no textbook for Deepwater Horizon, an event that saw BP viewed for a time as a distressed company. At one point, BP's credit default swaps (CDS) – a key barometer of the perceived risk surrounding a company (the higher the CDS, the higher the risk) – was trading at 1,100 basis points, when a so-called 'junk stock' would be around only 400. Recovering from that was a phenomenal achievement, brought about by capability, not luck, Sanyal acknowledges.

"Coming back from that event, as we did," he says, "required profound understanding of the group and markets, coupled with the deep confidence that comes from having in-house capability. A crisis is not the time to be bringing in new technologies or capability."

"At the time, we already had deep, real-time understanding of our exposures," Sanyal says. "We raised capital very quickly, and were able to demonstrate BP's robustness and regain the confidence of financial markets. We had to act quickly, decisively, but also appropriately and proportionately."

Looking at the challenges experienced since 2010, Brian Smith, vice president, structured finance western hemisphere, says: "Obviously, what is being witnessed in Europe currently has created a certain amount of angst in the financial system. We are ultimately trying to match global capital with our funding requirements, and understand the composition of that may change from year to year. We must be in tune with where the money is moving. Change is not always bad, as it brings new lenders who are willing to invest. We need to continue to be nimble, and we are doing just that."

Natalie Costello, Smith's eastern hemisphere counterpart, says a key development in the past-year-and-a-half has been a significant increase in the committed trade finance facilities, in the form of letters, available to BP.

"Letters of Credit are critical to the way we do business with counterparties, as they provide some certainty of payment," Costello says. "We now have a substantial portfolio of committed facilities, 10 times the levels we had before the Deepwater Horizon incident."

Some of the greatest potential opportunities to capitalise on burgeoning economies are in Asia. BP's finance teams are always looking out for the right investment opportunities, but decisions are always appropriate to the situation and always solidly underpinned by the 'guardrails' of the group's financial framework.

"We also issued our first Renminbi bond [in China] this past September," says Costello. "Asia is a big growth area for BP and broadening our ability to access funding globally is very important to us. We have built capability in how we approach these new markets, in ensuring solid understanding of matching funding sources with BP's funding needs, and in flawless execution."

BP Treasury's insurance arm also plays a key part in managing the company's exposures. With few exceptions, BP's global insurance strategy is not to buy insurance on the external market unless required to by law or contract, and, instead, to self-insure.

David Anderson, vice president, insurance risk solutions, explains why: "For the types of risk a company such as BP has, including offshore platforms, major refining complexes, a lot of the supply chain, there is not enough insurance capacity in the market. More and more oil companies are taking on insurance risk themselves. BP has been doing this since 1991, so we have the experience. We believe this is an efficient way of doing things."

BP annually underwrites as much insurance risk as one of the three biggest UK property and casualty insurance companies, through its own insurance companies, Guernsey-based Jupiter Ltd, and Saturn Insurance Inc., a more recent addition to the insurance capability, located in Vermont, US.

"BP Treasury is a logical place for insurance risk to sit as it manages the financial exposures of the group," explains Anderson. "We have 12 people in London and four in Chicago, who are responsible for all insurance purchases worldwide for BP."

BP buys insurance for the thousands of contractors that might be working on a project or development at many of BP's refineries, giving it enhanced sight of any incidents, claims and areas for improvement. BP Treasury is also working on putting into place insurance risk vehicles for platform decommissioning, to further enhance the group's understanding and mitigation of all its exposures.

"We have firm financial policies, the global oversight, the professional capability and the liquidity needed to weather the different kinds of crises that we could face, and also to chase opportunities that may arise," says Sanyal. "It's about having the right balance of pessimism and optimism, and being really clear about allocation of risk as you drive opportunities and reward."

Marathon running is all about preparation, training, focus and pace; knowing when to keep something in reserve and recognising the right time to speed up and grasp opportunities, to get ahead of the field. Market windows, by definition, open and close. Whatever the exact nature of the course as the current economic downturn continues, BP is wellplaced to manage the financial bends and twists and the dips in the road.



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