

Cash Management Banking Relations and Client Tools

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Today's Agenda

- Managing Banking Relationships
- RFP's and Bank Reviews
- Bank Selection Criteria
- Monitoring Bank Relationships
- Recommended Practice on Procuring Banking Services What's Next?



Managing Banking Relationships

- Effectively managing banking relationships can save a government time, money, and unwanted surprises, but it requires an investment of time and effort on the front-end and ongoing oversight. Envision banking relationships as two-way streets, whereby the bank client needs to be an active participant along with the bank to ensure that everything is running smoothly. Sometimes banking relationships go awry because the government never conveyed to the bank that it was dissatisfied with something, and the situation just snowballed. Consider the following concepts while reviewing your banking arrangements:



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Banking Requests for Proposals (RFPs)

- If your government has had a long-standing banking relationship in place and has not gone out to bid for numerous years, then it may be time to consider doing so. Typically, governments will put their banking out to bid every five years. A common scenario involves a three-year contract with two one-year renewals, totaling five years. An RFP process creates a very competitive environment among the banks, resulting in the most favorable pricing and terms and conditions for the government.



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Banking Relationship Review

- If your government would prefer not to undertake an RFP process, which can be arduous, then it could consider performing a formal banking relationship review. All of the key banking relationship components, such as pricing, product utilization, customer service, and contracts, can be reviewed and renegotiated with the existing bank. The bank will know that if the process does not satisfy the government that the banking relationship could still go out to bid, so it is in the bank's best interests to negotiate a favorable package for the client.



Bank Selection Criteria

- When selecting a bank or monitoring existing banking relationships, governments should consider and rank the following criteria:
- Protection of public funds (collateralization of deposits)
- Financial strength of bank (capitalization, bank ratings, profitability)
- Ability to provide required services (basic cash management services)
- Ability to provide enhanced services (new services, emerging technology)



Bank Selection Criteria Cont.

- Experience with public sector clients (Government Services Group)
- Quality of references (other like agencies with similar service utilization)
- Cost to the government (pricing, cost of conversion, staff time)



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Bank Selection Criteria Cont.

- Note that protection of public funds should be a top priority. If there is any risk of loss through lack of proper collateralization or poor financial performance on the part of the bank, then the government needs to look at another bank. Also, cost is not always the key decision making criterion, because if the bank does not score well with the other criteria, then cost becomes a mute point.



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Monitoring Banking Relationships

- Once a banking relationship is established, a government will want to ensure that everything is on the up and up throughout the duration of the contract. For example, pricing can be monitored through on-line account analysis data downloaded to a spreadsheet program that compares contract pricing with actual pricing. Bank financial information can be obtained through a government's broker/dealer, bank annual reports, or online investment services such as Bloomberg. Collateralization information can be obtained by requesting copies of the public funds reports that the bank files with the state. The other areas can be discussed and tracked through regular meetings with the bank relationship manager.



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Monitoring Banking Relationships Cont.

- Typically, a government should expect quarterly in-person meetings with its bank, and most likely there is daily bank contact by agency staff with Customer Service and other bank departments for research items, questions, and problem resolution.



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Be the Squeaky Wheel

- Surprises typically occur when the bank client has not communicated directly with the bank's relationship management team about any ongoing concerns. If the bank does not know there is a problem, then they will not endeavor to find a solution. Lack of communication with the bank can result in overpayment of bank fees, maintaining balances well in excess of what is needed, high pricing in non-negotiated product areas such as merchant bankcard or uncollected funds, and loss of goodwill among the bank and agency staff.



In a Nutshell

- In summary, governments should check to make sure that the following banking relationship characteristics are in effect:
- An underlying banking services RFP, banking services proposal, and bank contract.
- Regular RFP or banking review schedule in place (e.g., every five years).
- Bank monitoring system in place for pricing, financial condition, and collateralization.
- Regular in-person meetings with the bank's relationship manager (e.g., quarterly).



In a Nutshell Cont.

- Ongoing dissemination of new product information from bank.
- Fast turnaround from bank staff for day-to-day questions, requests, and research items.
- Familiarity of agency with banking services used and new services available.
- A well-managed banking relationship benefits everyone involved—the government, the bank, and most importantly, the taxpayers and constituents.



Recommended Practice on Procuring Banking Services

- State and local governments use a wide variety of banking services for the deposits, disbursement, and safekeeping of public monies. Prudent procurement practices necessitate the reevaluation of banking services on a periodic basis. In addition, continual changes in technology, cash management practices, and banking industry structure offer public cash managers opportunities to reevaluate banking services and costs.
- Normal practice on procuring banking services recommends that state and local governments should undertake the following practices to receive effective banking services at reasonable costs:



Recommended Practice on Procuring Banking Services Cont.

- Periodically initiate competitive-bidding and negotiation processes, in accordance with the state and local laws and regulations, for major banking services. The processes should include requests for proposals and should cover services, fees, earnings credit rates, and availability schedules for deposited funds.
- Have contracts for banking services that specify services, fees, and other components of compensation.
- Establish a relationship manager who will best understand the needs of the entity and be able to provide service improvement recommendations as well as cohesive communications.



Recommended Practice on Procuring Banking Services Cont.

- Evaluate the relative benefits and costs of paying for services through direct fees, compensating balances, or a combination of the two. Factors to consider in this evaluation are the earnings credit rate, reserve requirements and insurance fees on deposits.
- Evaluate their needs against the costs and benefits of specific banking services, including but not limited to:
 - **Electronic** Balance and transaction-reporting services
 - Stop payments
 - Payment capabilities
 - Transmitted analysis and statements
 - Digitized storage of paid checks and statements
 - Stale date check management



Recommended Practice on Procuring Banking Services Cont.

- Access to safekeeping/custodial information
- Access to investment performance reporting

Accounts

- Controlled disbursement
- Zero-balance
- Interest-bearing
- Investment sweep account

Security features

- Positive pay services
- Reconciliation services



Recommended Practice on Procuring Banking Services Cont.

- ACH blocking/filtering capabilities
- Check to ACH conversion
- NSF/ACH conversion for re-presentation of NSF check
- Collateral requirements

Cash management services

- Lock-box services
- Credit card receipt merchant services
- Safekeeping custody arrangements
- Procurement cards
- Payroll/value cards
- Web links for Internet payment for services



Questions

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