

Cash Management Banking Relations and Client Tools

Tony Okray
SVP - Government Banking Relationship Manager

Today's Agenda

- ▶ From The Banks Point of View
- ▶ Managing Banking Relationships
- ▶ RFP's and Bank Reviews
- ▶ Bank Selection Criteria
- ▶ Monitoring Bank Relationships
- ▶ Recommended Practice on Procuring Banking Services
- ▶ What's Next?



4 Principles for Customer Engagement in Banking

1. Take Advantage of the 90 Day Window After Onboarding

Research from J.D. Power found that the optimum number of communication touches is seven during the 90 day period that a new customer signs on to your bank. To do this well requires utilizing different communication channels, such as email, phone, and postal mail, and deeply understanding the types of information your new customer wants and needs. For instance, mail them a welcome kit as soon as they sign-up for an account, call to see if they need help with common tasks such as using their mobile phone to make deposits, and continue to send them periodic communications that are helpful.

2. Don't Sell Before Building Trust

What's the point of these ongoing communications? Building trust. It's imperative that a strong foundation of trust is forged before you attempt to sell your customers on additional products. This means giving customers the necessary information they need to best use the service they've opened with your bank. If they've opened a checking account, for instance, explain how to use services such as direct deposit, online bill paying, overdraft protection, mobile banking, and more.

3. Capitalize on Mobile

Supporting customers' desired communication channels also goes a long way to building customer engagement in banking. Younger consumers especially want quick, pain-free ways to interact with their bank accounts including using their mobile phones to make deposits, check account balances, and transfer funds. It has become an expectation that banks will provide these tools, and they're easy to use. Similarly, using SMS and email to communicate with customers can significantly improve relationships because of mobile consumption patterns.

4. Stay in Touch

Customers may need more than one communication to take action. But it's also important not to barrage them with needless communications; rather, used alternative forms of encouragement to expand the relationship. Ramping up your customer engagement strategy is a worthwhile endeavor that builds long-term customer loyalty. Customer engagement in banking is the cornerstone of a relationship that includes trust, ongoing communications, and steady growth in service ownership and revenues if done correctly.



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:



- ▶ New Environment and New Technology
- ▶ Preparing for the RFP
- ▶ Making the RFP You Own
- ▶ Evaluating The Responses

Banking Relationship Review

- ▶ Incorporate best practices into your RFP
- ▶ Enhance success with RFP's for banking services
- ▶ Understand the Bank's perspective
- ▶ Create a mutually beneficial RFP

Banking Relationship Review

- ▶ Historically low rates
- ▶ Cost containment is "Job One"
- ▶ Revenue enhancement
- ▶ Regulatory changes – Collateral requirements, FDIC
- ▶ Increase paper and electronic fraud
- ▶ Technology fuels change – and addresses risks in the current environment

Banking Relationship Review

- ▶ Efficiency and cost containment
 - Payables outsourcing, paper, electronic, and wire
 - Paper to electronic conversion
 - Vendor payments via commercial card
- ▶ Enhancing receivables
 - Internet payments
 - 21st century lockbox
 - Check image processing



Banking Relationship Review

- ▶ Fighting Fraud
 - ACH blocks
 - ACH positive pay
 - Check positive pay
 - Payables outsourcing



Banking Relationship Review

- ▶ Conduct a "WWW" review of your current depository relationship and prioritize
- ▶ What's working
 - Service – Functionality – Relationship – Value
- ▶ What's not
 - Identify product and service gaps
 - Quantify concerns about value
- ▶ What's next
 - Economy/revenue – Expansion – New Technology – New investment options – Regulatory changes



Banking Relationship Review

- ▶ Must have's!
 - Keeping what works
 - Improving what doesn't work
 - Meeting regulatory requirements
- ▶ Wants
 - Improving what works – Preparing for the future
- ▶ We're exploring
 - Adding new technology – Changing processes – Adding or deleting staff
- ▶ Stay focused on the possible!!!



Banking Relationship Review

- ▶ More information = better, more accurate pricing
- ▶ Provide volumes wherever possible
 - “Blind” account analysis statements
 - Historical transaction volume and balance data
 - Listing of all services
- ▶ Share balance information
 - Interest bearing vs. non-interest bearing – Use average balances vs. one point in time
- ▶ Share your account structure
- ▶ Share strategic plans that impact your depository relationship
- ▶ Provide your most recently approved investment policy



Bank Selection Criteria

Bankrate.com  Comprehensive. Objective. Free.

- ▶ 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)



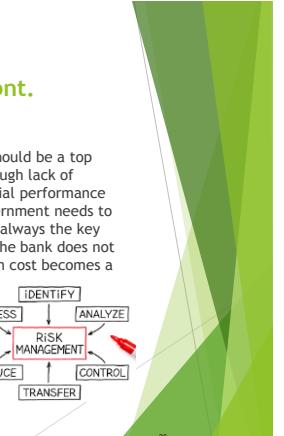
Bank Selection Criteria Cont.

- ▶ 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)



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.



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.



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.



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.

If you want to go fast, go alone.
If you want to go far,
go with others.
African Proverb

- ▶ 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.



25

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:



26

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.



27

Questions

?????

"Alone we can do
so little; together
we can do so
much."
Helen Keller



28