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Improving Corporate Relationships Through Billing

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Executive Summary

An invoice is not generally associated with improving customer satisfaction. That is, unless that bill reflects the customer's relationship with the institution generating it. Integrating that relationship information with core banking and enterprise level analytics to deliver detailed reporting can actually create incentives for expansion of a corporate customer's business with the bank.

Introduction

Corporations transact a variety of different services with their banks. For global corporations, the services required often vary by country and product lines. Typically, there is a local or regional relationship as well as one at a corporate level. This simplifies compliance with local and regional regulations as well as any unique aspects of the domestic systems. Thus, international cash management fees are frequently decentralized, often relying upon manual invoicing and working against the global and bank-wide goal of Straight Through Processing (STP). Here is an inherent conflict between the corporation's demand for banks to commit balance sheet while banks prefer selling products with no capital requirements. Finding an optimal mix requires an infrastructure that can measure (i) fees paid per product, branch, counterparty etc. and (ii) capital requirement on the same or similar variables.

Consistency Facilitates Transparency

Corporates also struggle with consistency in reporting fees as well as how the fees are paid. Some banks will debit accounts, some will invoice, and some take fees out on a per transaction basis. On top of this it is difficult to complete an “apples to apples” comparison as banks outside the US have not adopted and implemented standard codes. The Association for Financial Professionals (AFP) has recently announced a global service codes guide. It will only be a matter of time before multi nationals and other corporations will be asking for a detailed invoice based on these codes or another standard.

While local or regional bank branches create convenience for transacting that business, they also result in budgeting and monitoring challenges for the corporation’s central treasury group in managing the total relationship with a bank. Similarly, the bank supplying global transaction services does not always have integration across all of its various systems interacting with or supporting a global corporate customer resulting in revenue leakage for the bank and higher operational costs to prepare bills. The Tower Group estimated that there is \$70 million dollars of leakage per billion of annual bank revenue.

Detail is Divine

In this semi-automated environment, corporations also do not have sufficient details and accurate references for what is being paid for. In many cases, an “honesty system” exists whereby treasurers look at trends over time in fees to determine if there is a problem rather than having specific fee data to analyze. Thus, international fee verification has traditionally been an “art” rather than a “science” for treasurers. In recent years the verification has been performed by resource intensive shared services centers. Often reference numbers are missing and require manual research. Reconciling monthly or quarterly reports is labor intensive. Primarily this is due to the fact that most legacy core banking systems were not built to handle rules-based processes.

A Relationship Based Approach

Corporations are increasingly demanding that their banks have knowledge of their total relationship, not just the local one, and their current activity across the board. Optimizing the corporation’s fees paid versus how much the banks commit their balance sheets to the corporate is becoming a more common management tool. The financial crisis and increased restrictions on banks’ corporate lending are the main drivers behind this trend. Therefore, it is realistic to expect that In the near term, banks that are not able to present fees charged per product and counterparty may experience credibility issues with their customers. Besides delivering better customer service, relationship based bank management minimizes the frustration from repeated requests for information the bank has already collected, and reduces the number of incorrect postings. With a comprehensive understanding of the relationship, bankers can “upsell” products and services that the corporation needs and wants rather than the more common “here’s what I have to offer”.

The Internet is continuing to increase users' knowledge of what is possible. Consumers who use the Internet and experience a more personalized approach staff corporations. This is in contrast to the services that they are getting through their bank relationships. As a result, banks are facing increased pressure to approach their corporate customers with new products and services that fit their specific corporate needs rather a more generalized set of services based on size or segment. Banks should be able to relate their fees to the balance sheet commitments for each corporate customer in order to better balance their offerings. In the same way that corporations are focusing on that ratio, bankers should as well.

Most multi national corporations (MNC) use a "total wallet" analysis in their money allocation decision-making process. For example, a large foreign exchange (FX) bank would probably not get a large portion of a MNC's cash management activities. Post financial crisis this tool has been very important in the counterparty exposure analysis where corporations bucket investments, FX and cash management into their total exposure analysis. Additionally, the wallet analysis also allows corporations to shift business if issues arise within a certain line of business (LOB) of the bank. For instance if the corporate is having problems with an FX bank that also provides cash management it may look to move the cash management business as well as the FX business.

Core systems that measure the value of the customer relationship must be integrated with the bank's pricing and billing solution for corporate customers. This not only improves the bank's negotiations with treasurers, but makes possible a more fulfilling set of services from both the corporation's and the bank's perspective. Analytics are a critical component. Understanding a corporation's profitability to the bank along with its credit risk across the relationship assists the bank in delivering products and services that fit their needs and those of their customers. Core banking systems integrated with the appropriate analytics hold the key to pricing and billing that result in satisfaction for the corporation and the bank.

Integration and Standards are Critical

Another key concern for corporations doing business globally is the adoption of the Electronic Bank Account Management (eBAM) standard. This global ISO standard enables corporations doing business in multiple countries with multiple banks to use a standard approach to opening bank accounts and maintaining them ongoing rather than supporting proprietary formats and approaches with each bank. The key to simplifying the implementation of this standard for the banks is pre-populating the standard with relationship information the bank already has, and incorporating ERP integration through extracts of corporate Human Resource data such as mandates, signing authority, delegation of authority, etc. Core banking systems contain many of the elements required by the ISO standard and require electronic audit confirmations.

Facilitating the integration necessary to successfully achieve straight through processing for billing requires the support of a next generation infrastructure. It's key that the bank integrates not only its own data about the customer relationship, but also refine that knowledge with information gathered through web interactions by those customers. Information about the corporation's social network

participation, for example peer groups, enables the bank to gain insight into issues and challenges the corporation is facing.

Distributed Operations Require Seamless Integration

To execute the integration seamlessly requires the confluence of secure web services, comprehensive identity authentication and appropriate provisioning. These functions must be inherent in the underlying infrastructure to maintain the strict privacy and security required by financial institutions and to enable the bank to be channel agnostic when transacting business with its corporate customers. Treasuries are not only distributed, but also staffed by people who require mobile support. The channel utilized, time of day, and location of the device are required data elements for pricing and billing and must be captured by the core systems involved for analytics to be applied.

Summary

Traditional approaches to corporate pricing and billing, focused on individual elements or functions within the continuum of the total corporate customer relationship will no longer suffice. Banks must integrate core banking and customer relationship with enterprise level analytics to support a corporation's global business and to create incentives for expansion of that business. Additionally, they must be able to support bi-annual reviews with their corporate customers where the information is not compiled and collated manually. Today preparing for these reviews is a very manual effort that is prone to errors and dependent on the bank specific branches.



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