2020
TREASURY UPDATE
NEWSLETTER

Bank Fees:

A Challenge and an Opportunity

For many treasury professionals, bank fee analysis is "the low man on the totem pole" quarter after quarter and year after year. While most are aware that analyzing and managing their bank fees would be ideal, it never seems urgent enough to prioritize. It seems high in hassle and low in reward. Our aim is to reverse that. We hope you leave this article armed with options for the hassle and ready for the high rewards of proactively managing your bank fees by whatever means work best for your organization.

WHAT'S THE BIG DEAL WITH BANK FEES?

As with all other expenditures, it's important to make certain that the amounts you pay are correct. Unlike with all other expenditures, however, bank fees are not processed through Accounts Payable. No one has to review an invoice and write a check. Instead, bank fees are usually netted out of credits to the account, such as interest accrued during the same period.

This unobtrusive method of charging makes it easy to overlook bank fees, and while they do not draw themselves to our attention, the rates are frequently wrong, out-of-date, or are silently telling a story of costly internal operational errors that no one is catching. Changes in your volumes or in which services you use could qualify you for better rates than you're receiving. Additionally, many bank systems reset at the beginning of the fiscal year, which can effectively erase any negotiations or concessions your company has been awarded by your Relationship Manager in the past.

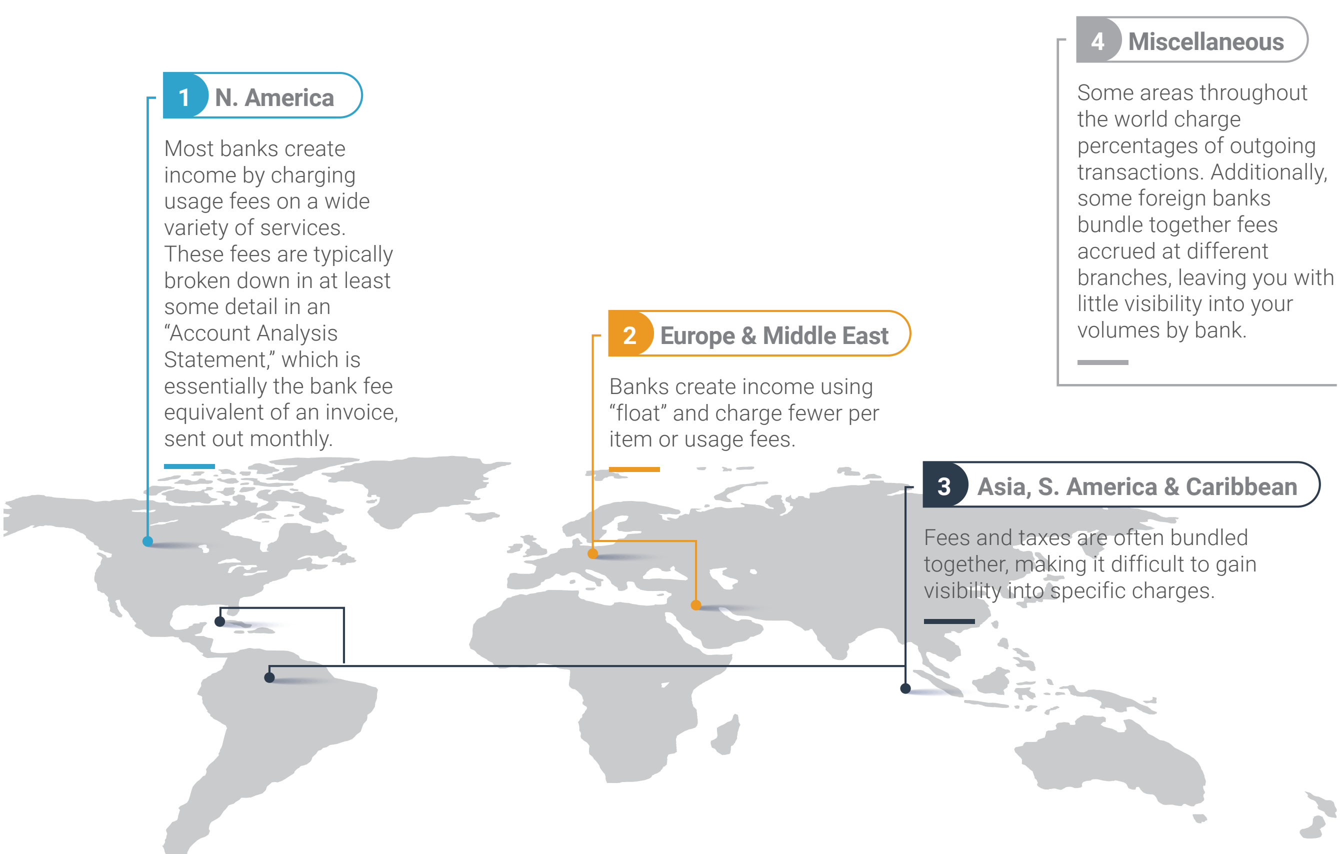
Reviewing your bank fees can even help you monitor your operations; an unexpected spike in wire repair fees, for example, could indicate a mistake on the bank's part, but it could also indicate that something in your operations requires attention.

For companies with many banks and many bank accounts, all these issues can add up to massive losses to unnecessary bank fees. On the flip side, it also means that analyzing and managing bank fees can result in massive savings.

As worth it as the savings are, however, bank fee analysis can still be a dauntingly complicated endeavor. In the following sections, we will turn our attention to understanding the complications surrounding bank fees and the processes and options available for overcoming those challenges.

BANK FEES AROUND THE WORLD

One of the most complicating elements of bank fee analysis is the wide variance in international processes and standards. It is important to be prepared for the different situations you may encounter depending on where you live and where your banks are located.



THE PROCESS OF MANAGING BANK FEES

Managing bank fees involves four main steps: gathering data, aggregating data, analyzing data, and negotiating new rates. Below, we will discuss some challenges and best practices for each step.

1. *Gathering Data*

Data and pricing sheets must be collected from each bank and office that analysis is being performed on. Depending on the organization, this might involve 100+ accounts at over a dozen banks in multiple countries. The first step, then, begins with deciding how you will collect data from each bank.

This process can involve collecting paper statements, accessing information through bank portals, or receiving data via electronic file format to a Treasury Management System (TMS) or other technology solution. In many situations, not all of these options are available. While in the U.S., the Account Analyses can simplify the process, for organizations with banks located around the globe, data must be collected in varying formats, currencies, and languages.

2. *Aggregating Data*

After the initial collection of data, information must be aggregated and consolidated for easier analysis. This includes standardizing the currency, language, and fee structure of statements and pricing.

3. *Analyze Data & Identify Savings*

After the challenges of gathering and aggregating data, the analysis begins in earnest. This central step, while many find it tedious, can be rewarding as you uncover area after area where your organization will be able to save, and as you catch errors that would otherwise have been missed entirely.

Below, we outline some questions to ask as you sift through your bank fee data:

a. For each account, are your rates consistent with any contracts / negotiated rates? Note: You will especially need to keep an eye on this at year-end, as many fees revert to standard when the new fiscal year rolls over.

b. How do your rates at this bank compare to those at your other banks? How do they compare to external benchmarks and industry averages? Note: Not all banks offer standardized pricing contracts, and charges may vary significantly by region or bank. For instance, one bank may bundle certain fees (such as for wire processing), while others may charge on a per-wire basis. This makes comparisons complicated.

c. Are you using every service you're being charged for, or are you paying for duplicate services or services that are no longer relevant to your organization?

d. Have your volumes increased such that you might qualify for better rates than when you last negotiated the price?

e. Are you getting the best rate for your merchant cards based on your usage volume?

f. Could you consolidate banks and get a better price for higher volume?

g. Could an operational change from paper to electronic help?

h. What geographic factors and moves might optimize your bank fees?

i. Consider share of wallet. Are you making sure you are important to all the banks you do business with? Are you positioning yourself so that they will want to negotiate with you?

Does your organization regularly analyze bank fees?

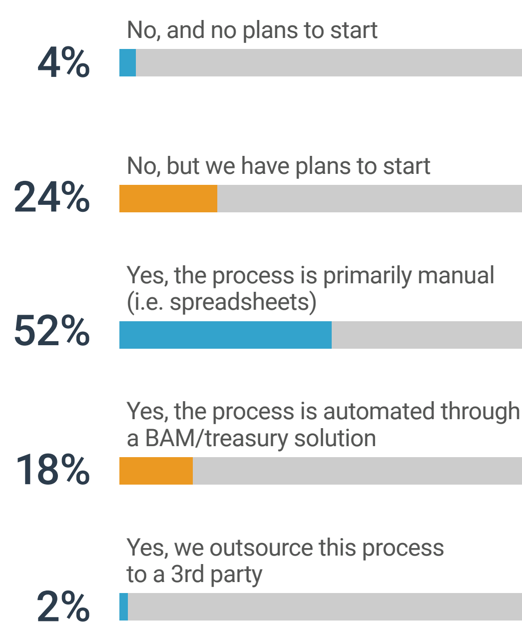


Figure 1

4. Negotiate
Once savings have been identified, it's time to negotiate new pricing and contract terms with the banks. As you work through this negotiation, keep the relationship context in mind. Again, consider share of wallet, and keep in mind as well that switching banks may be too much of a headache to be considered other than as a last resort.

Ultimately, this negotiation process should land you with streamlined and cost-effective pricing and an organized list of fee schedules. However, it is still important to follow up with the banks, ensuring that they have implemented all agreed-upon changes.

OPTIONS FOR MANAGING BANK FEES

Differences in size, global expansion, number of banks, and manpower can all affect which method for managing bank fees will be best for your organization. Below, we'll cover the main options for managing bank fees and discuss some of the pros and cons of each.

1. Do Nothing
This approach is common. Bank fee analysis is often treasury's least urgent problem, and when not prioritized, it tends to be put off indefinitely. Despite being common and easily explained, however, ignoring bank fee analysis is highly inadvisable unless an organization has minimal bank activity (e.g., 1-2 banks and <10 accounts). Otherwise, doing nothing represents a severe exposure with regards to bank surcharges, elevated fee structures, and operational errors that could have been caught during an analysis.

If this is your organization, and you realize you ought to manage your bank fees but are understaffed and overwhelmed already, read on. There are options farther down this list that might help.

At what level/to what detail do you analyze your bank fees?

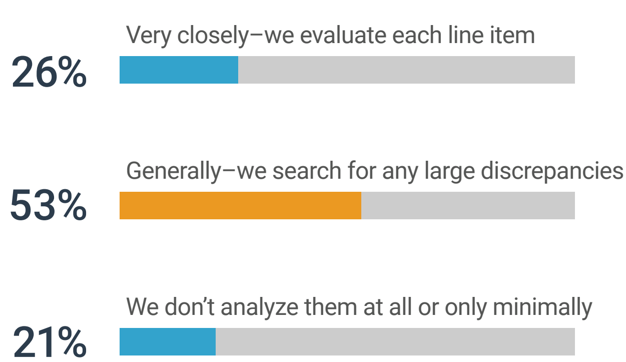


Figure 3

2. Manage In-House
This approach encompasses differing levels of complexity. Some organizations simply pull a pdf from the bank and glance over it to ensure nothing looks off in the fees. This high level check is certainly better than nothing, but is inadvisable for companies with significant bank volumes.

The second level of in-house management is more detailed, typically involving taking an Account Analysis and putting it into Excel for a more in-depth analysis.

If you are able to manage your bank fees in-house, the pros are simple and excellent: it's getting done, and your company is reaping the benefits. The cons attach to that crucial qualifier: If you are able.

Limiting factors on in-house bank fee management include the following:

a. Many organizations have too much bank activity to effectively track and analyze using spreadsheets alone.

b. **Lack of Manpower:** Perhaps the most common problem, many organizations find that they have no one with enough time to allocate to the task.

c. Reviewing statements or Account Analyses or putting them into Excel requires that those documents be available, which is often not the case with international banks. In some countries, banks exclusively release bank fee data via electronic file format, and many organizations lack the technological tools to receive and read the files provided.

3. Treasury Technology Module
Many TMS and Treasury Aggregators offer bank fee management modules and automated workflows for gathering and storing information. Many of these systems can accomplish a significant amount of analysis and are especially competent at comparing actual fees to contracted rates. There are, however, a few limitations to this option.

a. If you don't already have a system in place that offers this capability, implementing one is unlikely to be justified by bank fees alone. And even if you do have one, there is still the cost of the bank fee management capability to consider.

b. These modules can't do everything. At this point in technological development, there must be a human element involved to appropriately perform certain tasks necessary for thorough bank fee analysis, such as comparing banks against each other or handling fees calculated by transaction percentages. There are often limitations as well in the number of formats these modules can process.

4. Outsourcing to a Third Party

Outsourcing to a third party represents a very complete option. Third-party bank fee management services can typically manage the process from start to finish, handling the receipt and aggregation of data, identifying any type of issue, and negotiating lower fees on behalf of the client. For many organizations with limited resources, outsourcing can be the only viable option.

Like automation using treasury technology, this option is not free. However, in both cases the savings are likely to outweigh the price. Fee structures differ among third parties. Some charge a flat rate, while others charge a percentage of your savings, ensuring that you will net savings from outsourcing to them.

The one other potential con to keep in mind as you consider outsourcing is the inevitable possibility of exposure anytime sensitive information is transferred outside the organization. If you are looking into outsourcing, be sure to carefully review the third party's security measures for data both in transit and at rest.

How often do you compare your account analysis fees against your contractual rates?

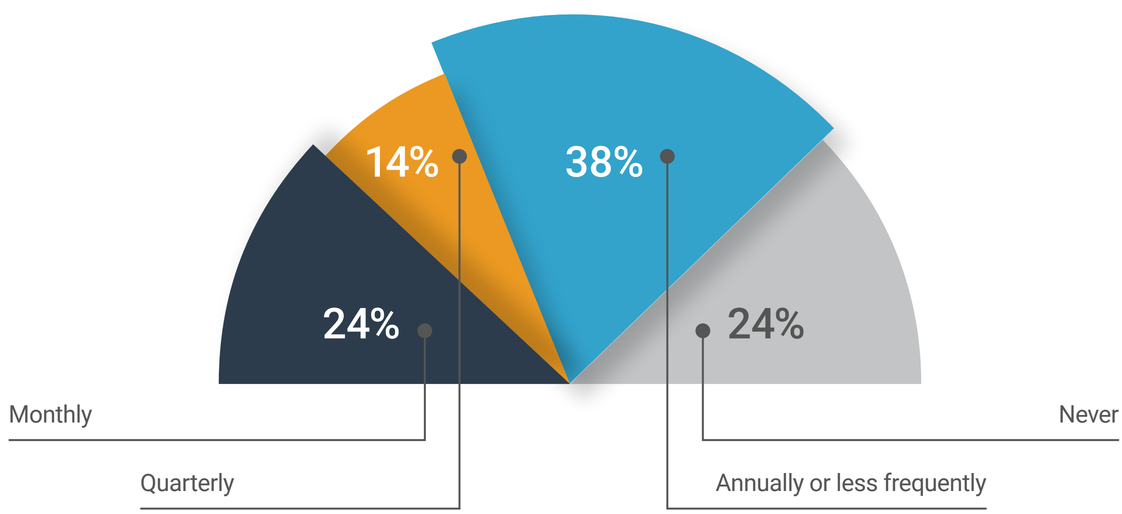


Figure 2

Final Thoughts

Bank fee analysis presents a much more significant opportunity for savings and operational insight than most treasury professionals realize. The savings typically amount to 10-30% of what the organization was paying, and this isn't a one-time saving. It recurs yearly, amounting to an annuity. We hope this article leaves you armed with options for the hassles of bank fee analysis and eager to harness the rewards.

SOURCES

- **Figures 1, 2, 3:** *Strategic Treasurer hosted webinar (October 2018)*

Disclaimer: Please note that Strategic Treasurer provides third-party bank fee analysis services to organizations, and as such, is not a neutral party with regards to this specific topic.

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STRATEGIC TREASURER

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Strategic Treasurer was founded in 2004 by Craig Jeffery, a financial expert and trusted advisor to executive treasury teams since the early 1990s. Partners and associates of Strategic Treasurer span the US, the UK, and continental Europe.

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