Guest article
Bank Relationship Management

Nowadays, bank fees are very much becoming a point of attention with corporate treasurers and finance departments. Especially the lack of transparency and the increase of fees is triggering many initiatives. An example is the TWIST/BSB initiative to bring one standard for Cash Management invoicing. Also the introduction of new regulations like Basel III/IV are triggering all sorts of cost and fee discussions with banks, right or wrong.

Bank Relationship Management is not new and has always recognised that a bank relationship is different from a 'normal' vendor relationship - a corporate has a financial dependency on its banks and there is typically a deeper and advisory type of relationship. The latter especially if you have managed the relationship well off course.

The interest for Bank Fee Analysis and TWIST in the last few years is good as it forces banks to become more structured and transparent in their invoicing. Be aware though that the focus is still only on Cash Management and on reconciling the billed versus the agreed prices:

It will not tell you if the price is right and fair!

As such we believe in a more structured approach whereby all banking products are in scope and whereby you can reconcile but most importantly ascertain if you are paying the right price.

Nevertheless most bank reviews by corporates are dominated by the qualitative aspects of the relationship. Do I like my bank relationship manager? Do the products work well? Is the service good? Very important topics but the lack of a more quantitative discussion is odd, as we are talking about fees and numbers here. The only figures - typically discussed - are the latest quarterly earnings of either the corporate or the bank.

We believe that a bank relationship should become more data driven where it has to be clear if the entire relationship is beneficial for both the corporate and the bank. A true win-win situation. Regardless of the size of a corporate or the industry that it operates in, a bank relationship can be defined as a connection between the financial cost that a company recognises as being spent on banking and the client revenue turnover component in the top line of the P&L of the bank.

It is important to first calculate the revenue contribution that the corporate generates for the bank. Isolating both the direct banking costs and the opportunity revenues such as interest margins on current accounts and arbitrage revenue recognition on treasury products, for example. Together these two types of costs represent the gross banking revenues, or the wallet as we like to call it.

A second component to understand is the capital requirement for the bank. This is a fixed set of rules based on the Basel requirements. It is possible for corporates to isolate their own capital requirement impact on the bank based on the set of products that they use from that institution. Dividing the gross banking revenues - the wallet - by the capital requirement, gives a return on solvency, the return the bank makes on their allocated capital for the specific corporate. This figure is a useful way of comparing banks on a like for like basis, as it stays out of the operating costs of the bank and instead focuses on the elements that the corporate can influence. If a bank would have a target return on equity of 10% and the corporate generates a return on solvency of 20%, the bank has more than sufficient business from this corporate to generate its return on equity.

The capital requirements change as the risk rating of the company and the risk weighting of the relevant products are taken into account. This is important as products have different risk weights - bank guarantees carry a different risk weight than a credit facility, for example.

The methodology described above is called WalletSizing®. In summary it follows the Basel III standard approach, rather than the internal ratings-based (IRB) approach many of the bigger banks would use. Typically the capital requirement calculations using the Basel III approach can be around 20-25% higher than the banks themselves may need using their IRB approach, but most importantly you can now compare banks.

The WalletSizing® methodology gives corporates a complete overview of all banking products with all their (core) banks and the value it brings to those banks answering the question of how profitable you are as a corporate for your banks. It also allows scenario analysis, credit negotiations, RFP processes and much more by simply starting with all data feeds already available and coming out of the corporate's ERP, TMS or the bank.

Many treasurers who would like to change the banking game and start doing the numbers for their bank relationships have to think before they act. A few recommendations before starting:

- Getting the data is no doubt difficult, bearing in mind the lack of transparency with banks and the complex and large number of systems that corporates also use. It is possible though and if you're being smart about it, you can collect all of it with some effort.
- Do not try to see banking costs as a reconciliation exercise. Most of the value is in understanding if you are paying the right price for all your banking costs.
- You could do the analysis manually once, but will lose oversight very easily if you do not automate it, as an excel spreadsheet is by default 2D and will not allow a lot of trending and/or scenario analysis without serious programming.
- Calculating your wallet is not about reducing bank costs only. It is very much also about taking your bank reviews to the next level and creating a proper long term structure around your bank landscape.
- When you establish an orderly process to update your numbers every half a year, you will get better at it and have a perfect view on your bank relationships.
- Most bank relationship managers will not have a complete and accurate picture of the actual revenues they make on their clients, especially not on all products and fully taking into account the capital requirements. Having the data yourselves as a corporate treasurer will give you a clear edge and allows you to discuss the numbers that matter as well, bank fees and margins.

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Warum haben wir eigentlich den US-Dollar vor einem Jahr gesichert, wenn doch der Kurs heute noch genauso hoch ist?

Oder: die Bedeutung der Performance-Messung im Währungsmanagement

Vor einem Jahr hätte die obige Frage vermutlich gelautet: „Warum haben wir eigentlich bei einem Kurs von 1,30 gesichert und müssen jetzt einen Verlust von 20% hinnehmen? Das Phänomen, dass im Nachhinein Entscheidungen im Risikomanagement hinterfragt werden, kennen viele Treasurer nur allzu gut. Für eine faire Beurteilung der Leistungen sind daher zwei Elemente wichtig: erstens die Definition einer klaren Sicherungsstrategie und zweitens die konsistente Messung des Erfolgs der Ausnutzung von Entscheidungsspielräumen.

Die Sicherungsstrategie muss selbstverständlich aus den wesentlichen Parametern Risikoprofil, Zielsetzung, Risikohorizont und Risikoneigung abgeleitet werden. Werden beispielsweise zur Absicherung einer Marge Umsatzerlöse oder Einkaufspreise zwingend gesichert, weil die jeweils andere Komponente der Marge fixiert wird, so ist es unsinnig, im Nachhinein den Opportunitätsverlust entgangener Gewinne zu beklagen. Werden Devisentermingeschäfte über einen längeren Zeitraum in fest definierten Stufen abgeschlossen, um eine Glättung des Währungsergebnisses durch Sicherung eines Durchschnittskurses zu erreichen, so kann der Treasurer auf die Frage nach dem erzielten Kurs nur antworten „weil wir das so festgelegt haben". Unbefriedigende Zielerreichungen könnten allerdings den Anlass bieten, die ge-