When Will the Banks Get it Right?

When the implementation process goes smoothly, time and money is saved. Why doesn't this happen more often?

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Each year, NLRussell Associates conducts a number of cash management operations reviews for mid-sized, large and multinational corporations. The benefits to a company from an independent review can be significant. Typically, the profile of a company and not simply its size will determine the magnitude of the potential annual cost savings from such a review. Some of the most common areas for improvement are accelerated cash flow, improved cash utilization, reduced bank service charges and automation of manual processes. In our experience, the benefits that companies frequently realize from these reviews are annual savings of hundreds of thousands of dollars.

Following our reviews, we often provide companies with implementation support to ensure the achievement of improvements and bottom-line results. In many cases, this includes developing customized requests for proposals for banking services and assisting companies in the implementation of new cash management services.

While companies should expect that implementing new cash management services will require a commitment of time and dedicated resources, we have consistently found that most banks are unable to implement such services without errors. Companies always ask us: "Why can't the banks get it right?"

To address this question, we looked at implementation experiences that provide an "apples to apples" comparison of implementation performance across several banks. The case we use here, for illustration purposes, is one in which five regional banks (each covering a different geographic area within the United States) were responsible for opening a combined total of more than one hundred new bank accounts and implementing an identical set of cash management services. The services used at each of the regional banks included establishing new bank accounts and setting up local depository services, zero-balance accounts (deposit reconciliation was ruled out by the company as an option) and Web-based information reporting.

Despite clear and timely written instructions and follow-up telephone calls, four of the five banks were unable to implement the new cash management system without errors. The table below highlights the major areas in which problems consistently arose. Unfortunately, these are many of the same problems that most companies experience when implementing new cash management services.

Comparison of Implementation Performance at the Five Banks

Mid-sized regional banks: $50 - $150 billion in assets
Large regional banks: $150+ billion in assets

	Large Regional	Large Regional	Large Regional	Mid-sized Regional	Mid-sized Regional
Deposit supplies ordered and delivered on time	yes	no	yes	yes	yes
Special bank statement cut-off dates implemented correctly	no	no	yes	yes	yes
Pricing correct on Account Analysis	no	no	no	no	yes
Accounts correctly grouped for Account Analysis	no	yes	no	yes	yes
All accounts set-up correctly on Information Reporting	yes	yes	yes	no	yes
All accounts set up in Zero Balance system	no	yes	no	yes	yes
% of errors based on 6 categories above	67%	50%	50%	33%	0%

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We found three major areas of implementation problems common to most of the banks.

1. Inadequate infrastructure and staffing

While every bank had a dedicated cash management implementation representative assigned to the company, the assigned representatives were not in charge of ensuring that all aspects of the implementation were monitored and verified for accuracy. In most cases, implementation responsibilities were fragmented and spread across different departments.

The implementation representatives were enthusiastic and generally did an accurate job of establishing some cash management services (information reporting, return item handling and automatic standing wire transfer instructions), however their performance fell short in some key areas. For example, responsibility for setting up zero balance accounting, special bank statement cut-off dates and establishing account analysis grouping and special pricing typically fell to persons in other areas in the bank.

Regardless of size, banks have failed to enhance and/or integrate their internal bank platforms and systems that are required to effectively support their corporate cash management businesses. We believe that banks' continued lack of investment in new infrastructure is a direct result of the numerous bank mergers that occurred during the past decade. Bank mergers also resulted in significant staff downsizing. Consequently, the implementation process within banks continues to rely too heavily on fewer people and more paper rather than new automated systems and processes. In an attempt to address their own internal infrastructure shortcomings, banks have placed more responsibility on their staff to compensate for those technological weaknesses.

Unfortunately, the combination of fewer staff and the fragmented organizational structure within most banks ultimately means that no one individual takes complete ownership and responsibility for implementations and thus things will predictably fall through the cracks.

2. Unsatisfactory internal quality control standards

Related to the infrastructure and staffing issues were deficiencies in the standards and expectations banks establish for their implementation staff regarding internal quality control (QC). QC ensures that each implementation task is understood and properly executed in a timely and accurate manner. Looking at the types of errors made by the banks, it is clear that the people actually implementing some of the tasks were not well instructed on what needed to be done or they relied too heavily on manual tickler files. For two banks that meant a failure to input the fiscal month-end bank statement cut-off schedule into their demand deposit accounting systems causing the company unnecessary and time-consuming account reconcilement problems for the first two months. Two other banks failed to group the depository accounts for account analysis so a consolidated billing statement was not produced for the first months of operations. In all cases, the errors were identified and brought to the banks' attention by the company -- not the other way around. Improved internal systems and formal QC programs at the banks would have prevented these problems.

3. Inflexible or complex billing systems

We also found that the complexity and inflexibility in the banks' account analysis billing systems frequently contributed to implementation errors. We consistently saw situations where special pricing arrangements had been input for some line items but other line items reflected standard pricing. In other situations, line item pricing varied by account indicating the bank's account analysis system was unable to manage special pricing at the group level. One bank, contrary to what was stated in the RFP, assessed a monthly "fee premium" charge of 15% because the company had elected to pay for services in fees versus balances. At two other banks, we saw charges for negative collected balances in sub-accounts despite the fact that all of the accounts were part of a zero-balance account system. In every case, the company was always overcharged and never undercharged.

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During our review of the first month of account analysis statements for the five banks, we calculated that the company was over-charged by 28% or $10,000 ($120,000 on an annualized basis). Unfortunately, the burden falls to the company, not the bank, to scrutinize the monthly account analysis statements and bring errors to the attention of the bank. Calculating billing errors and getting banks to make the corrections is a time consuming task for any company to have to perform every month. There are few enterprises in the United States that invest less in their billing systems to ensure they are accurate than banks.

Conclusion

Critical to the successful implementation of any cash management system is the aggressive verification of all services implemented by the bank before services begin. In our experience, banks must invest in upgrading their internal infrastructure and systems and improve their organizational structure to make them more complementary and less prone to errors. In addition, dedicated implementation representatives who have full accountability for the quality and accuracy of the entire set-up process would greatly serve to improve customer satisfaction and save banks (and companies) the significant amount of time and money they spend correcting preventable problems.

This sample of five regional banks found that the mid-sized banks performed the implementations with fewer errors than the larger banks. While the internal systems at the mid-sized banks have similar limitations as the larger banks, the implementation staff at the mid-sized banks demonstrated more ownership as well as better quality control and follow-up procedures during the implementation process. Perhaps this is simply a case of fewer links in the chain.

With careful and persistent follow-through, we worked with the banks to ensure that all of the implementation errors were rectified. Indeed, all were corrected and rebates were issued to the company within a few months, albeit some banks corrected errors more promptly than others did.

However, if banks could get it right the first time, they would save a great deal of time and money and delight their customers as well. As cash and treasury management consultants, we continue to ask ourselves not “why can’t the banks get it right” but “when will the banks get it right?” ◆

Authors’ Note: Every company should review their account analysis statements on a monthly basis. Unfortunately, charges that were correct one month are frequently incorrect the following month. Companies can also be unknowing recipients of line item price increases which are inconsistent with previously negotiated pricing.

NLRussell Associates is a Boston-based cash and treasury management consulting firm that specializes in working with mid-sized, large and multinational corporations. NLR offers a wide range of consulting services including cash and treasury management operations reviews and implementation support. To discuss your company’s needs and learn more about how NLR can help your company’s treasury department achieve bottom-line results, contact us.

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