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Banking Relationships

How can treasurers simplify their banking relationships without compromising on efficiency?

This topic was the back drop of the two days *Global Corporate Treasurers Forum Europe, 2011.* Treasurers shared their expectations from a bank, and several communities and groups on Treasury management around the world shared different methods for improving the Treasurer's efficiency. In my opinion, the treasurers require the following: (a) visibility to information, (b) completeness and accuracy of this information, and (c) timely accessibility to this information. There is a plethora of knowledge available with every treasurer and their banks in the context of simplifying their relationship. However, they do know that there is a gap, albeit a virtual one, in converting this knowledge into implementation. This article is an attempt to make use of the above mentioned pointers as the base for building a model that can be used for answering the challenge of bridging this gap.

There is no single solution that fits everything in the world of treasury banking relationship, and with the added constraint of maintaining efficiency, it only makes the solution unique for every relationship.

The best place to begin for this topic is to look at the quality of the currently existing banking relationship from a treasurer's point of view, and then look at how this relationship is impacting their efficiency. The rest of the article attempts to arrive at a way to measure these aspects to get a quantitative picture. What gets measured has a possibility of getting improved.

Measuring The Banking Relationship

One possible way of measuring Banking Relationship is by arriving at the Relationship Fulfillment Index (RFI), through what I call Relationship Fulfillment Model (RFM). RFI is a number between 0 and 1 that gives a sense of where a treasury banking relationship stands.

The RFM is built on the following aspects that govern the quality of a relationship—the degree of complexity in the processes that govern the relationship, the completeness and accuracy of the information exchanged, and the timely accessibility to this information.

Understanding the degree of complexity in a treasurer's banking relationships starts from cataloging the various processes that the treasurer does with bank(s), and deriving the Relationship Complexity Index (RCI). It is simply the number of steps that is ideally required for completing a process divided by the actual number of steps taken for completing the same. The minimum and the ideal number of steps required for completing a process is 1. An RCI value of 1 indicates an ideal relationship where the parties involved in the relationship have become "one", and one can conclude that this process has attained its simplest form.

For example, let us take the process of knowing the daily balance of all the accounts. If a bank or an in-house Treasury Management System (TMS) provides the treasurer a single place to access this information, then RCI value for this process is 1. However, if the treasurer has to take several steps for getting this information, then the RCI value could get lower.

Similarly, measuring the second aspect, which governs the quality of a banking relationship, would be to derive the Information Completeness and Accuracy Index (ICAI) for the processes. It is the total number of times information has been accessed minus number of times incomplete or inaccurate information was identified/reported divided by total number of times information has been accessed. A value of 1 is the ideal state, which means that there is not been a single instance where a treasurer has to deal with inaccurate or incomplete information.

The final and the most important aspect of Treasury Banking Relationship is the timely accessibility to information, which is measured by deriving the Timely Accessibility Index (TAI). It is the total number of times information has been accessed minus number of times an information was not accessible divided by total number of times information has been accessed, A value of 1 is the ideal state, which means that there is not been a single instance where a Treasurer did not have the information available in a timely manner.

Creating a weighted average of these indexes against each process and averaging these averages among these processes will give what I call the RFI. A RFI value of 1 indicates that the bank has completely fulfilled all the needs of the treasurer. A simple illustration of this is given in Table 1

Table 1: Calculation of an RFI

Relationships	RCI	Weight	Weighted RCI	ICAI	Weight	Weighted ICAI	TAI	Weight	Weighted TAI	RFI/ Process
Process 1	1	10%	0.1	0.6	40%	0.24	1	50%	0.5	0.84
Process 2	0.5	10%	0.05	1	40%	0.4	1	50%	0.5	0.95
Process 3	1	10%	0.1	1	40%	0.4	0.5	50%	0.25	0.75
Average			0.083			0.346			0.416	0.845

Table 1 shows a mock RFI, based on the RFM. This indicates that Process 3 is an area where the treasurer should start to focus on and find out what can be done to get the information available in a timely manner. By creating this matrix for all the processes with a bank, a treasurer will have in-depth analysis of each process, which may lead to an increase in the RFI value. In the above example, the RFI value is 0.845, which indicates a healthy relationship, although with some scope for improvement.

Relationship and Efficiency

The RFM addresses only a part of the question, and does not take into account the efficiency aspect of treasury processes. Efficiency, in the context of treasury, will be calculated in the Efficiency Savings Report (ESR). Efficiency savings is the sum of the savings made when there is a decrease in how much time a treasurer needs to achieve a certain task and the savings made by doing more with the resources they already have without increasing costs or reducing effectiveness.

The efficiency savings should typically be one of the goals assigned to a treasurer. In some cases a treasury efficiency review process is conducted annually, which produces a report based on all the transactions managed by the treasury, and indicates the possible areas to improve efficiency. However, by deploying technology that continuously measures and reports efficiency savings, a treasurer, by combining the RFM and treasury efficiency savings, can pinpoint the processes that need to be looked at.

For example, timely accessibility of information could be low for certain process areas, and a treasurer would then guide their team and bank to look into those, while preventing the constraint of either increasing the efficiency savings or not reducing it. This model will then provide access to the process that requires improvement in the timely accessibility of information. The treasurer can then look at ways of improving it, for example, by making this information available on the internet or setting up an alert notification to his mobile.

Conclusion

Every banking relationship is unique for a treasurer, and what works or simplifies for one may not necessarily work for others. This model attempts to measure the relationship and arrive at a more quantitative approach to prioritise the process areas to focus on, so that each and every treasurer-bank relationship can provide mutual assistance and benefit.

There are several options to extend this model further. A bank's overall performance can be revealed by getting the RFIs of all the treasurers it serves. The cumulative RFI value, when gathered by all banks, can then be used to calculate the industry average and create competitiveness between banks, thereby opening up innovation possibilities in simplifying relationships.

About the Author

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