

Time for that Check-Up

Conducting Treasury Management Reviews

Southwest Treasury Expo June 16, 2011



Nanette N. Crocker, SVP
USA Sales Manager
Corporate Treasury Management

Good Morning!

- Proverbial 2 Aspirins...
- Today's Examination
 - Health Objectives
 - Patient History
 - Cash Flow DNA
 - Rx Prescription
 - Transaction X-Rays
 - Emergency Treatment
 - Consultations
- 'Patient' Case



Let's Begin by Weighing in...



Treadmills get your heart beat up but there are no other guaranteed results...

Are you working hard with the same results? Are band-aids involved?



Are revenues and sales up or down – is the back door opened or closed?
Is corporate cash flow being impaired by outdated services or antiquated processes?

How's your vision? Does it involve hindsight or is it visionary?

Can you clearly see your operating needs and are they being met now and for the future?

Can you envision the impact to your cash flow by converting to new services?



Is the cost of new glasses preventing you from changing your prescription?

Let's explore what's in Dr. Dough's little black bag...

Antidotes that translate into bottom line results...



Initial Appointment: Self-Examination

- **Feeling Great!**
- **Lots of Energy**
- **Right Product Mix**
- **Right Internal Processes**
- **Short and Long Term Plans**
- **Cash Flow Stability**
- **Strong Profitability**
- **Risk Mitigation Under Control**
- **Disaster Recovery Proven**
- **Executive Management Buy-In**
- **I'm a hero!**

- **Worried and Stressed**
 - Transaction Fraud
 - Return on Investment
 - Sarbanes-Oxley
- **Sleep Anxieties**
 - Straight-Thru-Processing
 - Legacy Product 'Quilting'
 - Antiquated or no ERP
- **Mental Wellness**
 - Nagging Questions
 - Dual Controls?
 - Rising fuel costs?
 - Credit Renewals?
- **Phobias**
 - Hurricanes – Katrina
 - Earthquakes and Tsunamis
 - Terrorism, Family Safety, DRP
 - Plan B and C...D?



TMR: Patient History



1970s

Mainframe Applications
Telex/Dumb Terminal
Voice/Human
Paper-Based Checks
Float Management
Remote Disbursement
High Interest Rates
Labor Intensive Journal Entries
Signatures by Hand, Stamp
Paper...lots of paper
Many Banks
"Paperless in 10 Years"

"May the Float Be With You"

1980s

PC s/External Modems
VRU, ARU, Fax
Voice/More Data
Paper Based and Limited ACH
Float/Information Management
CDS/Net Debit Caps
Daylight Overdraft
Falling Interest Rates
Signature Facsimiles
Less Paper...Smart Card Intro
Bank Mergers Underway
"Paperless in 10 Years"

"Gridlock"

1990s

Client Server Applications
PC Proliferation/Internet
Internal Modems/Fax
Paper Based, ACH,EFT, EDI
Intra-Day Information
Automated Sweeps
Electronic Banking Introduction
Low Interest Rates
Signatures Digitized
Smart Card/Imaging
Bank Merger Mania - Outsourcing
"Paperless in 10 Years"

www.electronic commerce.com

2000s

New Hardware, Palmware, Earware
Web, B2B, B2C, Webinars, Wireless, Apps
PCI, Identity Theft, Fraud Prevention
Real Time Online Banking
Image Exchange and IRDs
Remote Everything
POS, POP, ARC, WEB, TEL
Passive Float
Interest Rates, Credit, Liquidity
Emergence and Convergence
Paper Still Exists
"Paperless in 10 Years"

**911 • Enron • HealthSouth
Check 21
War • Extreme Weather**

TMRs: Conduct Every Three Years

Which Decade describes your treasury operation?

- Treasury Management Policies, Procedures and Practices
- TM Products, Services, and the Bank Relationship
- Contracts, SLAs, Compliance, and Report Cards
- Changes in cash position patterns, risk or exposure, and operating costs
- Interim TMRs:
 - Executive Management Turnover
 - Banking Regulatory Changes
 - When things go bump in the night...
- **TMR Best Practice – Mapping - Handout**
 - Five-Step Process
 - Data Evaluation, Cash Flow Charts, Services, Improvements and Redefined Flow Chart



TMR: Think it through...

- Refer to the mapping instructions...
- Include economic value not “just” service charges
- Look for ways to eliminate paper by going ‘green’
- Leverage high volume transactions for a better price
- Eliminate negative balances resulting in overdraft fees and interest penalties
- Negotiate “bundled” pricing if possible – so much per location or store
- Very low volume transaction accounts may be better serviced as non-analyzed
- Impact of FDIC as well as Reg. Q Options
- Exploring new or evolving products...

Value-Based Decisioning

- **Opportunity Cost** is the hard dollar costs incurred by choosing one option over an alternative one that may be equally desired.
- **Economic Value** is the measurement of “how much” of one desirable condition or commodity will, or would, be given up in exchange for
- **Business Logic translation using an hourly paid employee in example...**

Economic value can be directly tied to an employee’s worth based on his or her productivity for specific tasks or some other desired condition or commodity. Whereas opportunity cost is more in line with their actual payroll.



Opportunity Cost vs. Economic Value

| Cost Savings | Economic Value |
|--|---|
| Deposit Tickets \$50 Photocopying \$1,000 Gasoline \$888 Cost Savings \$1,938 | Deposit Prep Time \$2,664 Travel to Bank \$1,998 ECV Savings \$4,662 |

Total Savings \$6,600

A simplistic example showing each decision component should be considered. This is also true when discontinuing a service.

How does the decision really impact costs?

How does it impact cash flow?

Back office accounting?

The Doctor's in...

Recently met with a patient who explained...

“Trend today is to move more and more to electronic payments with continuous movement toward straight-through-processing. Focus has shifted to improving controls, productivity and visibility into liquidity position.”

“Best practices underway in Corporate America right now include remote deposit capture and check conversion, payee-match positive pay and reconciliation services using a bank service or ERP.”

“Need to harmonize standards for cross-border payments and across all industries:”

“Remove obstacles to achieving 100% payroll electronification”

“Need more parity between consumer and corporate protections (UCC & Reg CC)”

Daily battles leaving bruises include the following issues...

“Holder in Due Course”, 24 Hour ACH Returns and “Refer to Maker” Issues

Greatest pain point – **FRAUD!**



Conversion and Truncation

How would these services impact your cash flow?

- POPs are finally “popping”...any audience success stories?
- BOC (Back Office Conversion)
- IRD check clearing timelines
- Fed Image Check Clearing
- ARC, Opt Outs, Foreign Items
- Remote Deposit vs. Remote Remittance
- Image Cash Letters
- Virtual Lockbox Banking
- Virtual Vaults and Remote Cash Deposits
- Purchase Card with Automated Payables

End Point Analysis can be provided by your bank...”baseline” it!



Items Deposited Float

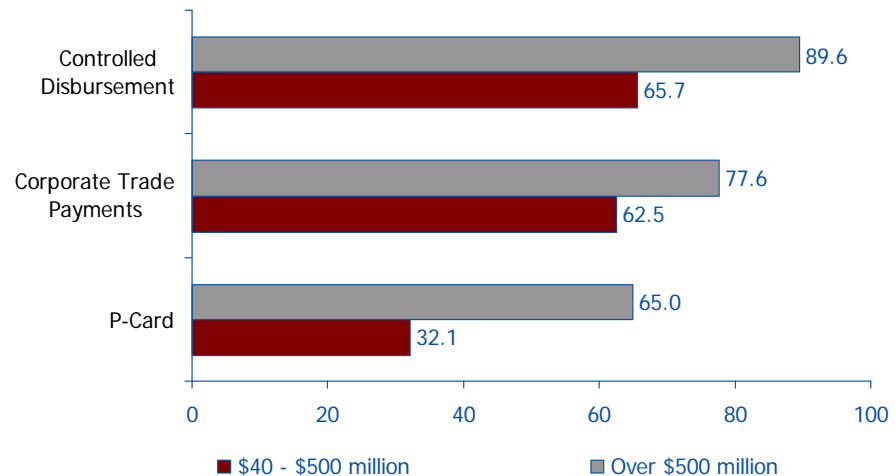
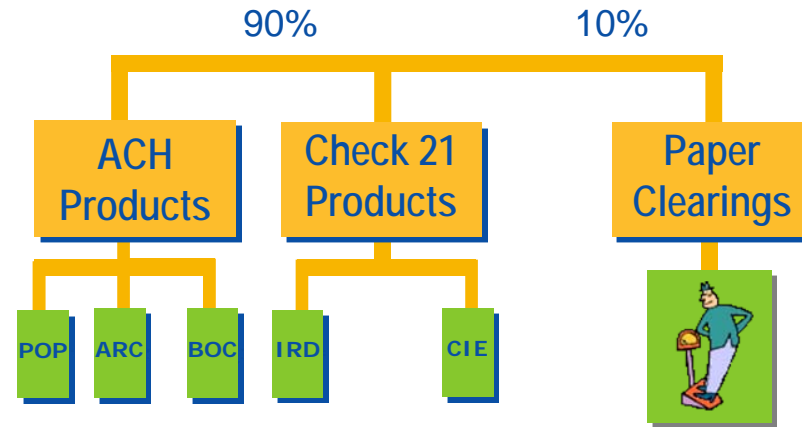
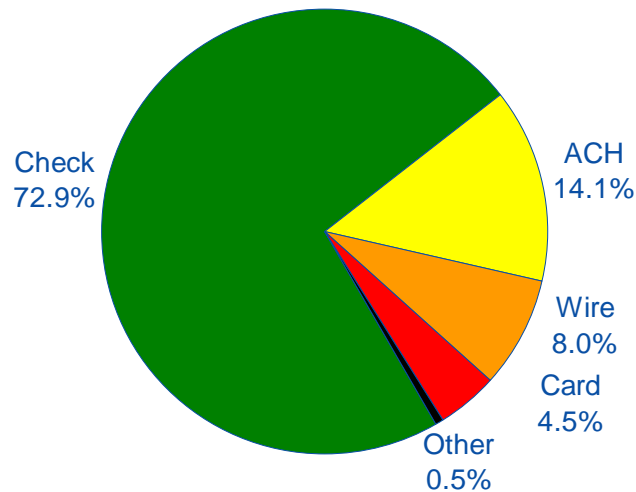
Sample End-Point Analysis - Excerpt

| FRB District | Endpoint | Item Count | % | Total Dollars | % | 1-Day | 2-Day | |
|--------------|--------------------|------------|---------------|---------------------|---|---------------|-------|---|
| 6 | Atlanta City | 173 | 0.838% | \$ 1,275,425 | | 0.390% | | x |
| 6 | Atlanta RCPC0611 | 142 | 0.688% | \$ 352,367 | | 0.108% | | x |
| 6 | Subtotal | 315 | 1.525% | \$ 1,627,792 | | 0.497% | | |
| 1 | Boston City | 109 | 0.528% | \$ 4,344,746 | | 1.327% | | x |
| 1 | Boston RPCP 0113 | 65 | 0.315% | \$ 3,091,344 | | 0.944% | | x |
| 1 | Boston RPCP 0114 | 11 | 0.053% | \$ 35,815 | | 0.011% | | x |
| 1 | Boston RPCP 0115 | 20 | 0.097% | \$ 228,032 | | 0.070% | | x |
| 1 | Subtotal | 205 | 0.993% | \$ 7,699,937 | | 2.352% | | |
| 4 | Columbus City | 389 | 1.884% | \$ 754,379 | | 0.230% | | x |
| 4 | Columbus RCPC 0141 | 210 | 1.017% | \$ 1,282,410 | | 0.392% | | x |
| 4 | Subtotal | 599 | 2.901% | \$ 2,036,789 | | 0.622% | | |

- *Passive Float* in a low interest rate environment and due to imaging
- Analysis still valuable to understand remittance end-points
- Could prove interesting – ask for a copy....it's free
- Explore bi-product Full Recon Report showing check issued clearing timelines

Payments DNA

- “Electronification”
- Straight-Thru-Processing
- Purchase Cards
- Integrated Payables
- Fraud Prevention



Purchase Cards

- **Business Visa is not a purchase card program**
- **Viable Purchase Card or P-Card Program**
 - Vendor Matching with estimates of participation and rebate
 - Annual or periodic rebates based on spend value
 - Company Administrator entitlement authority for transaction level spending, businesses, internal payables use, card stops and replacements...
 - Ability to download transaction detail into general ledger or expense reporting software
 - Generates value-add reporting and audit trails
 - Fleet specific for transportation cost containment and vendor negotiation in example
- **Enforcing use through policy...**
the patient “question”...

| \$40 - \$500 Million | 2009 | 2010 |
|---|-------|-------|
| Percentage of vendor transactions to be converted | 11.1% | 9.3% |
| Receive a rebate | 33.3% | 56.8% |
| Accept for invoice greater than \$10,000 | 23.6% | 25.7% |
| Change in product quality | n/a | 0.00 |

| Over \$500 Million | 2009 | 2010 |
|---|-------|--------|
| Percentage of vendor transactions to be converted | 20.2% | 16.0% |
| Receive a rebate | 68.3% | 81.7% |
| Accept for invoice greater than \$10,000 | 28.6% | 26.9% |
| Change in product quality | n/a | (0.13) |

Transaction Fraud

- **Check Fraud**

- 73% of companies experienced an attempt or actual fraud during 2009

- 90% of these cases were for checks

- Companies experience by sales size

- 81% over 1 Billion in sales
 - 63% under 1 Billion in sale
 - Average loss \$17,100

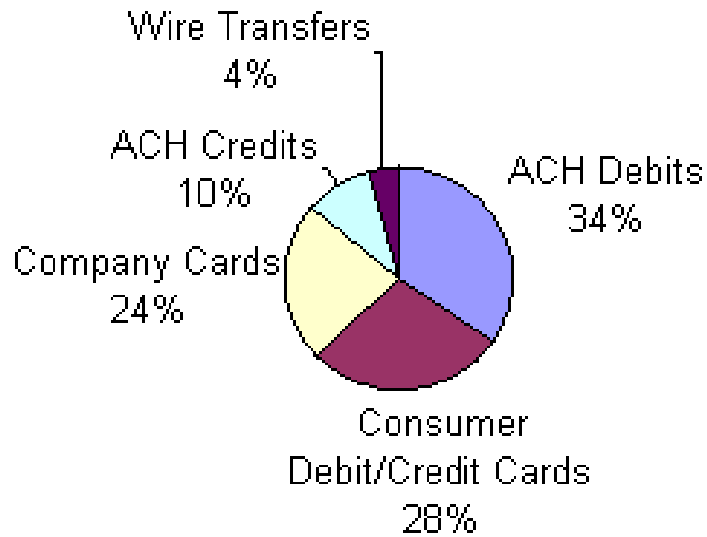
- **Prescription**

- Image or Reverse Positive Pay
 - Online Banking Image Delivery
 - Timely Reconciliations
 - Dual Controls
 - Lock and Key – “another story”
 - Average Cost of Service < 1000/year or \$2.74 per day or 1 Starbucks

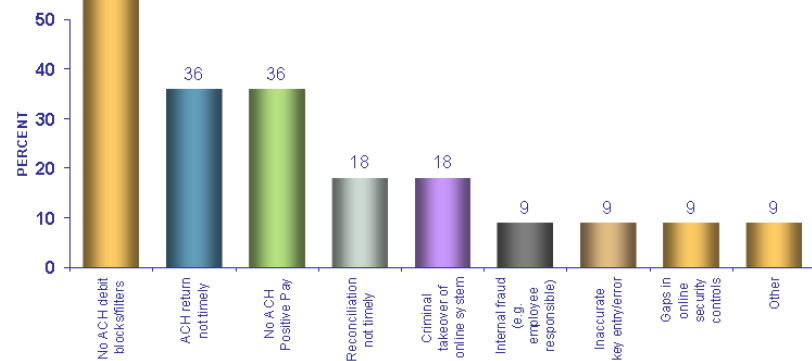


Transaction Fraud

Electronic Fraud 2010 AFP Fraud Study



Primary Reason the Organization Suffered Losses from ACH Fraud



Source: AFP (Association of Financial Professionals) 2009 Payments Fraud & Control Survey

Prescription

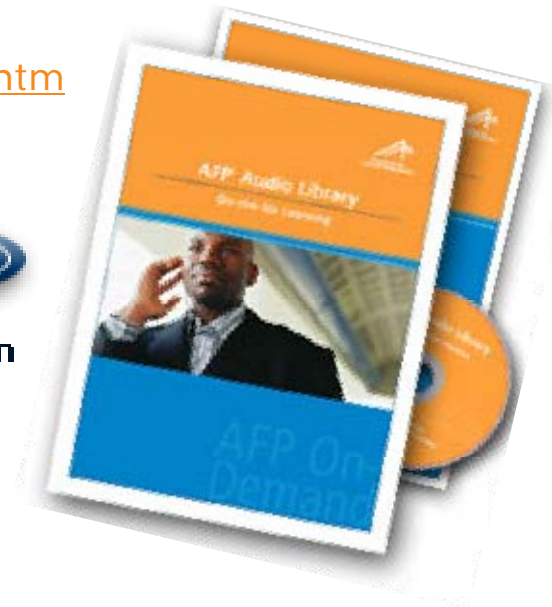
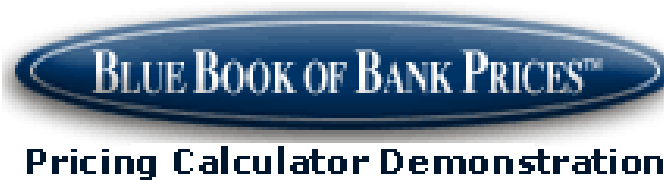
- Activate ACH Block or Filter
- Advanced Blocks Identify “allowable” debits
- Very low cost protection

Bank Costs Control Tools

Best Practice Cost Control Tools

- RFIs – Request for Information Benchmarking
- Phoenix-Hecht 's Blue Book of Bank Prices Pricing Calculator Demo www.phoenixhecht.com
- AFP Bank Pricing Data – Market Segment, Regional, Level I Free, Level II and III Fee
- AFP Bank Scorecard – Free to Members – surfing the site is recommended.
- TSI RFP Standard Questionnaires <http://www.tisbooks.com/RFP-Quest.htm>

How about another opinion?





Which analysis components impact cost of banking?

Bank Formulas used for Average Balances, Negative Balances, Interest Penalties, Earnings Credit Rate, FDIC Insurance

Availability Schedules applied to items deposited reported as average uncollected or float

Reserve Requirements imposed by the bank that reduces balance value for ECR

Transaction Costs per unit applied to volume for services rendered

Account Analysis Errors whether by programming or human error.

Relationship Account Grouping links all accounts to one parent so aggregate balances can be used to offset fees.

Negotiable

RFP vs. RFI Treatment

A **request for information (RFI)** is a standard business process whose purpose is to collect written information about the capabilities of various suppliers. Normally it follows a format that can be used for comparative purposes. An RFI is primarily used to gather information to help make a decision on what steps to take next.

A **request for proposal (RFP)** is an early stage in a procurement process, issuing an invitation for bankers, often through a bidding process, to submit a proposal for specific service(s). The RFP process brings structure to the procurement decision and may dictate to varying degrees the exact structure and format of the supplier's response. Effective RFPs typically reflect the strategy and short/long-term business objectives, providing detailed insight upon which suppliers will be able to offer a matching perspective.

- AFP Standardized RFP Questionnaires – member service - www.afponline.org
- Typically by product name with redundancies first 10 pages – remove
- Generalize treasury service names as much as possible then include volume
- Develop a grading or rating system based on what's most important to your decision.
- RFPs typically awarded to lowest bidder so you may want a disclaimer statement to include other criteria.
- Remove questions irrelevant to your operation or you'll receive 'canned' presentations and it makes evaluation more difficult.

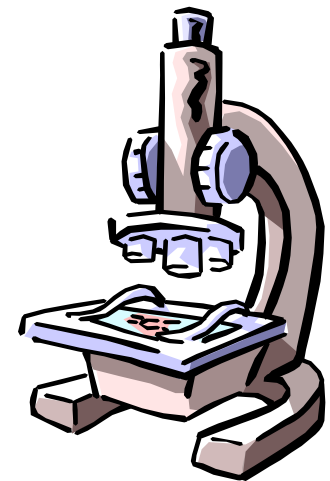
| Timeframe | Description |
|--------------|--|
| 2 Weeks | Define Objectives and develop project plan |
| 1 Weeks | Confirm potential bank bidders/contacts |
| 2 Weeks | Develop Overview , Select Questions, Deliver |
| 1 Week | Host Q&A Session |
| 5 Weeks | Allow time for RFI/RFP response |
| 2 Weeks | Review responses and apply scoring |
| 1 Week | Make Bank Selection and Begin Discussions |
| 2 – 4 Months | Implement Services, Test, and Activate |
| * | Add 1 Week for Bank Presentations - Optional |

Pricing Anatomy

| | | |
|------------------------------|-------------------------------------|-------|
| Top Price Increases | Account Recon Input | 16.7% |
| | ACH Received Addenda Records | 16.7% |
| | Credit Posting | 10.0% |
| No Increases | Controlled Disbursement Checks Paid | |
| | Lockbox Check Image Processing | |
| | Remote Deposit Capture Per Item | |
| Frequently Discounted | Positive Pay Checks Paid | 68.9% |
| | Controlled Disbursement Checks Paid | 67.3% |
| | Account Maintenance | 65.8% |
| Rarely Discounted | Check Image Retrieval Maintenance | 15.1% |
| | Lockbox Transmission | 18.2% |
| | Check Image Item Retrieval | 21.1% |

FDIC

- **Dodd-Frank Wall Street Reform and Consumer Protection Act Effective July 21, 2010**
 - FDIC Insurance coverage for deposit accounts was permanently increased to 250,000 per depositor
 - Includes unlimited coverage on all non-interest bearing accounts by all FDIC-insured institutions beginning December 31, 2010 through December 31, 2012
 - FDIC Assessment base to insured depository institutions changed from adjusted domestic deposits to average consolidated total assets minus average tangible equity
 - Separate FDIC assessment established for large and small insured depository institutions
 - Regulation Q prohibiting interest payments on non-consumer accounts was repealed
- **Commercial Options will vary across banks...**
 - Analyzed Checking with ECR
 - Checking with Interest
 - Checking with both interest and ECR (Interest paid on excess balances)
 - Type of business eligibility, taxes, can and can't sweep, lower rates, higher rates



TMR: Patient Case

3.5 Billion Mortgage Banking Company

Objective

To evaluate cash efficiency and develop recommendations for improvement.

Deliverable

Executive Management Report detailing study results and prioritizing recommendations by quantitative value.

Time Frame

4 weeks with four days field work.

TM Review Results:

- Identified **2.4 million** in annualized operating efficiency improvements.
- Mapped Bank Accounts and Cash Flow.
- Recommendations for control improvements.
- Cost justified additional FTE to perform related projects and implement new efficiencies/control improvements.
- **22 Projects**...nine representing an immediate contribution to the 2.4 million.

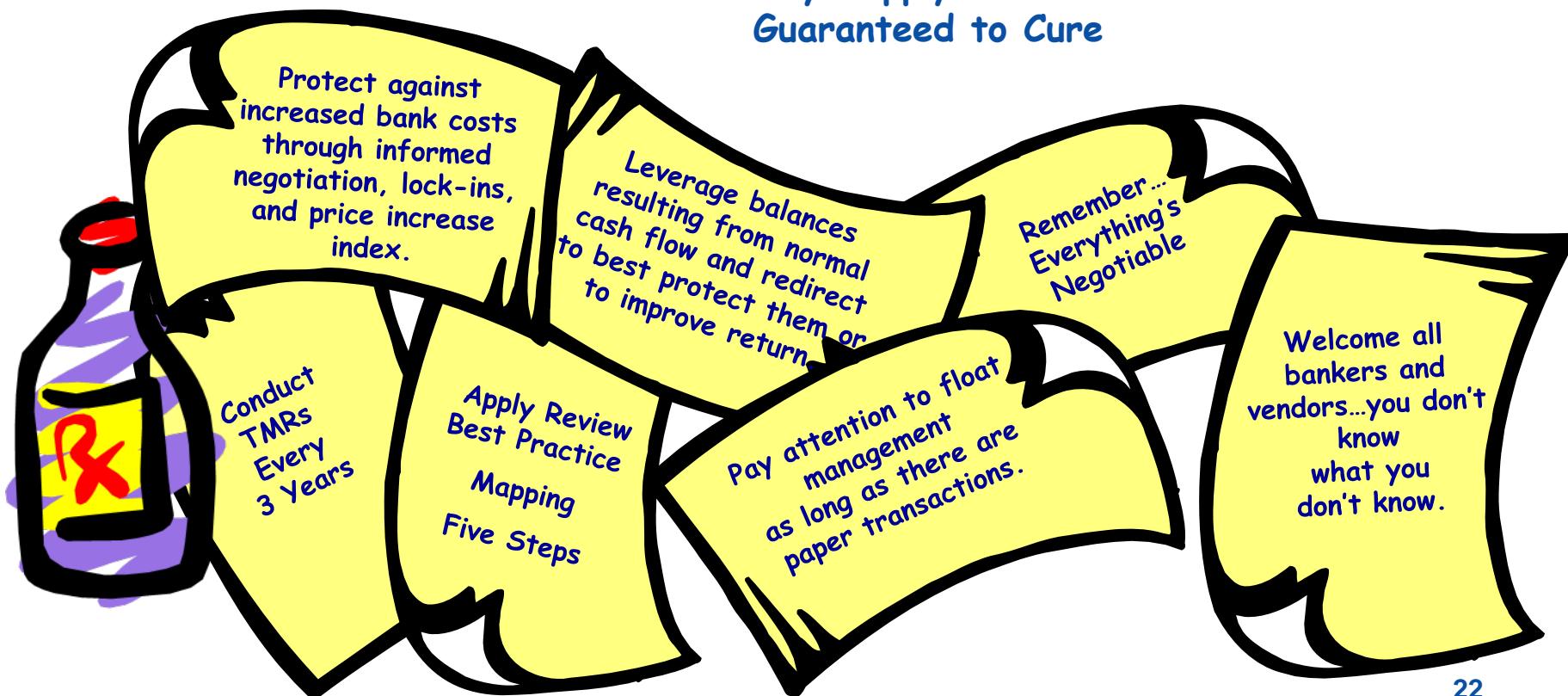
Top Four Improvements

- ✓ **Banking** - additional TM product, reduced pricing and applied fee compensation versus balances.
- ✓ **Remittance Processing** - Mail time, end points, handling, program logic and deposit deadline improvements.
- ✓ **Aging Accounts Receivable** - revised collection and reconciliation of funds due from security broker policies.
- ✓ **Loan Payoffs** - revised policy for payoff by wire transfer.

Dr. Dough's Prescribed Remedies

Treasury Management Reviews

Each Patient Condition is Different
Always Apply with Care
Guaranteed to Cure





Remember...

- If you learned one new thing today it was worth being here!
- There's something at the Conference for everyone...
- *Dr. Dough says...I see bones but
"We don't know what we don't know"*

Enough of my Chatter...



So Tell Me – What's on your mind?



Good for what ails ya...



Q&A
Thank You!