HITTING A ROUGH PATCH in Your Banking Relationship

BY STEFAN JASKULAK

A good banking relationship takes work and commitment from the bank as well as the government entity (i.e., the customer). Without these commitments, along with clear communication, innovative collaboration, and transparent pricing, a banking relationship will not deliver what you had expected and is likely to falter or even fail.

Over the past few years, there have been reports of banks cancelling existing, sometimes long-standing, relationships and providing a very short timeframe for their customer to find a different bank. If this happened to you, or if the relationship has become stale, it is critical that you remain in the driver's seat, especially when it involves a transition. Many of us have long-standing relationships with our main banks, often longer than 10 or 20 years. Change is not easy, but there are ways to make it a win-win situation.

REVIEW YOUR RELATIONSHIP

It is always a good idea to sit down with your banker regularly and review the relationship. Look at the balances and at the services used (or not used). Also ask the banker about new services that might improve your current process. These periodic meetings will help you manage the relationship and signal any issues before they become significant problems that could sour the relationship. Several banking services deserve special attention because they quickly affect the bank's cost-benefit analysis of its relationship with your government:

- **Deposit Balances.** Balances are expensive for banks to maintain because they have to be collateralized with high-quality liquid assets. One alternative is to invest the balances elsewhere (in certificates of deposit, local government investment pools, or direct investment), or to negotiate with the bank to use a letter of credit (drawn on a different bank) in lieu of collateralizing your deposits.

- **Branch Activity.** This usually consists of cash and check deposits, as well as check-cashing by non-bank customers. Remote deposit capture and electronic payments can reduce this expensive, high-touch service significantly.
- **Technology.** Governments can be slow to adopt new technologies, but doing so is necessary to be more efficient and effective. There is an inverse relationship between branch activity and the adoption of new technology — that is, branch activity tends to decline as new technology (e.g., reporting, remote deposit, electronic payments) is implemented.
- **Customer Service.** Service is very important, but make sure the level of service you're using is appropriate. Properly training staff members will ensure that calls to customer service can be reduced to a minimum and be reserved for urgent and unusual issues.

After taking these steps, you might still have concerns about your banking relationship. You may have received the bad news that your bank still wants to break up with you. The first step in the break-up process is to understand the impact on your government. Ensure good communication with stakeholders so they know what's coming. If the bank doesn't want your business, and there is no easy way to repair the relationship. It is time to move on — but only on your terms and your schedule. Do not let the bank rush you.

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PREPARING FOR CHANGE

Conduct a scope analysis to determine what products and services the government is using. Additionally, an impact analysis on internal and external processes will identify all the effects that the change will have on the organization — the number of processes that are affected by the banking services and information flow can be staggering.

Most institutions offer a large number of banking services. As part of the analysis process, make sure you understand the internal processes involving your financial service provider. To make sure you're considering all of the systems and procedures in your analysis, involve the other department stakeholders, as they are the experts on their respective processes and systems.

Changing your financial service provider is an excellent opportunity for taking stock of your current operating environment. You will likely discover processes that aren't up to current best practices and standards. Although the transition process will probably be made on a compressed time schedule, it is still worth developing an improved and more cost-effective system. As you go through the fact-finding process, maintain a list of all the services you want to convert and update, as well as any specific requirements your organization might need a service provider to comply with. Some examples of potential impacts include web-based technology, online reporting, fraud protection services, remote deposits, electronic transfers, check images, document retention timelines, investments, and non-banking services such as merchant services, lockbox, and paying agent.

Review and evaluate your government's contracts with your banking services provider. The bank may be providing primary banking products and services, which might also include merchant services, lockbox, tax or utility collections, paying agent, or trust services. These additional arrangements likely have separate contracts, along with separate service agreements and timing. Map out the way items and bank information will be handled during the transition period.

After evaluating the internal processes, shift your focus to the external processes, or those provided by third parties on behalf of your organization. Does your current banking services provider also serve as your merchant services provider? It might be necessary to identify and select a new merchant services provider. This can be a complex undertaking, as the equipment may not be interchangeable, and a number of interfaces may have been created to electronically capture and transmit payment information into your government's general ledger accounting system. Your bank also provides a variety of non-depository systems and services for which you may also need to identify a future services provider (e.g., lockbox, account reconciliation, purchasing guards, and a number of other miscellaneous services).

PROCURING NEW BANKING SERVICES

To start the process of procuring new banking services, review state statutes and your government's policies. Issue a request for information first to help develop your requirements; then use this information to customize your requests for proposals (RFPs). Instead of just changing one bank for another, decide what you want to accomplish with the transition. GFOA's *Procurement of Banking Services* and *Due Diligence on Bank and Treasury Management Providers* best practices (available at gfoa.org) are great resources. Sometimes you get so many responses that reading and scoring every book is difficult. To evaluate RFPs quickly and effectively, read one section of each in succession, and evaluate them. Then move on to the next section, and so on.

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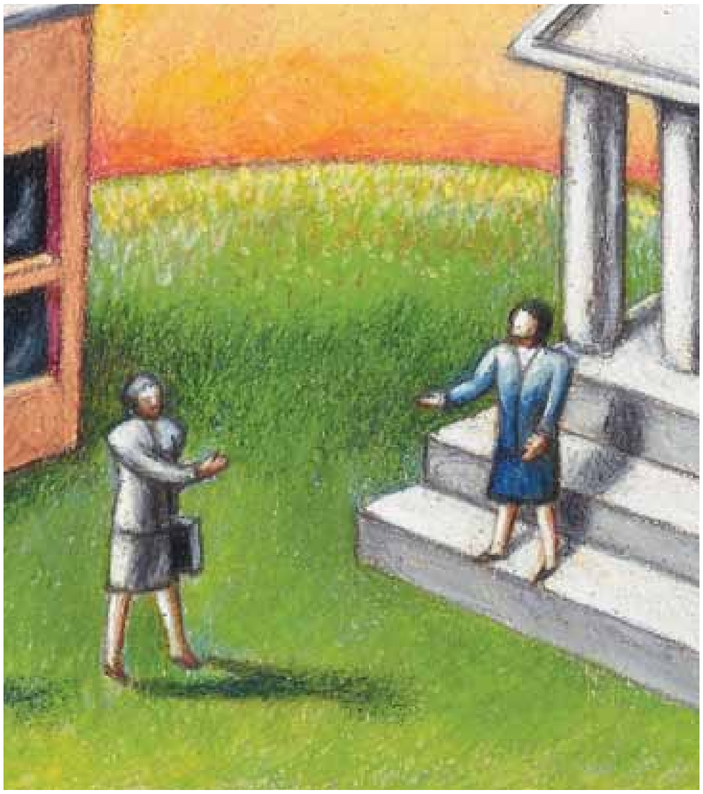
Your initial focus should be on the primary banking services and the specific services you require, based on your scope and process impact analyses. It all depends on size, scale, and the types of services you provide. How much technology do you want? What level of ERP integration do you need? Does the new bank have a consultative approach? You are not just going to the gas station to fill up your tank with gas. You can do that anywhere. Banks are typically the experts in designing the best account structure and recommending the appropriate services and fraud protection products, so make sure the bank you choose builds in a consultative approach to help with your transition and improve your services and processes. Lastly, consider the extent to which the bank's senior management will participate throughout the process. You don't want someone to simply come in and do the presentation; your banking team should be with you and with the project manager during the implementation afterward. The bank should make a commitment.

When evaluating banking proposals, establish criteria that tie in with your proposed scope, impact, and desired outcome. Evaluation criteria should include the product and service breadth of the bank. Is it a full-service bank? Do you even need a full service bank? What is the service level?

Evaluating financial strength is critical to ensuring that your new bank is financially sound. Several sources for information can help you find the initial information, including the rating agencies. The Federal Deposit Insurance Corporation website provides detailed information on capital ratios, and you should look at the Community Reinvestment Act ratings. Credit default ratings are forward looking and can provide insight on the likelihood of a bank failing within the next one, five, or even ten years. You will also need to research the bank's management quality and experience — not just that of the sales representative. Look at the background, stability, and reputation of executive management as well. Pricing should be at the bottom of the evaluation criteria list because fulfilling the other criteria is more important; incremental pricing differences should not be a determining factor. The focus should be the services and service level, financial stability, and management acumen.

IMPLEMENTATION

Finally, when you've completed the RFP process and everyone has calmed down, it's time to implement the new contract. As tempting as it may be, do not go for the big bang



transition; instead, do the implementation in phases. Make sure you have a good implementation plan that factors in the needs and readiness of every department into consideration. Get to know your new bank and develop your working relationship with them by starting with a few departments that have basic service needs and volumes. Once that's going smoothly, you can ramp up to the more complicated departments and wrap up with the low-volume departments.

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The implementation is likely to be a significant undertaking that will touch just about every department in your organization, so you need a project sponsor or an executive steering group to assist with the high-level decisions and removal of inevitable roadblocks. Include some of your larger stakeholders, such as the tax collector and/or the utilities manager. For the day-to-day implementation tasks, to establish an operational or tactical team. This team will help you with the implementation and provide feedback on the operational decisions such as account structure, technology implementation, lockbox configuration, and reporting.

Next, set up a good timeline for the implementation. Do not rush because there is pressure to make the change quickly. Instead, be methodical in your approach; slow down initially to gain speed later on. Set up a "parking lot" for items that do not fit into the implementation, including issues involving scope creep.

As part of the timeline and implementation planning, certain deliverables and milestones need to be achieved. Track these, report on them, and make sure you give signals ahead of time if you are running out of time or if there is a crunch coming up. Do not be afraid to take the issues to the sponsor or the executive steering group; their role is to remove roadblocks and help you stay on schedule, on scope, and on track.

COMMUNICATION

A successful transition requires a lot of communication before, during, and after the transition process. Communication is always crucial. Internally, you need to let your governing body or council know of the impending change as soon as possible — the last thing you want is for them to hear about it in the local media. Also inform the treasury, finance, and audit areas of the pending change, and communicate with department heads, the legal department, and those responsible for supporting the government's information technology functions. Also notify employees who will be affected. As for external communications, third-party service providers such as software vendors, custodians, and investment pools should be notified of the pending changes and the potential timing.

In your communication, include milestones and schedules for the entire project, as well as more immediate schedule targets. Then update and communicate frequently. Conduct frequent training sessions on the changes, especially for the new bank's portals and online features. Training is often overlooked or minimized, but it's an important step and should be made it as convenient as possible to attend.

CONCLUSIONS

The key to success is to stay focused, stay organized, and communicate frequently. There are many little details that can get lost very easily. Do a thorough upfront assessment of your government's processes, products, departments, and the needs of those departments. Build the transition around that as you determine what services the new bank can provide and how you can use those services to make your organization's processes even better. Design a good system and a good account structure that work with your ERP systems. You will hit some rough patches and roadblocks, but in the end, change is good — just stay in the driver's seat.

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