



# TREASURY RESOURCES

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# Managing Bank Account Structure Risk

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# Managing Bank Account Structure Risk

## Agenda

- Bank Account Structure Risk Defined
- Developing a Cash Control Program
  - Account Documentation
  - Implementation
  - Maintenance
- Bank Account Assessment
- Pitfalls to Managing Bank Account Structure Risk

# Bank Account Structure Risk

- Definition:

“The way a bank account is structured creates an inherent risk that a company’s funds may be lost if the bank account does not include the necessary and/or reasonable safeguards to prevent such a loss.”

# Bank Account Structure Risk

- Structure Risk is affected by other more identifiable risks (FX, Interest Rate, Credit), but it should be treated as a separate risk!
- The company's degree of structure risk needs to be reported to senior management.
- Senior management in Treasury and/or Controller departments must “champion” the minimization of structure risk.

# Developing a Cash Control Program

- **Step 1 - Account Documentation**
  - Operating site visits
  - Bank service interviews/tours
  - Bank account inventory update
- **Step 2 - Implementation**
  - Refine cost vs. benefit analysis of improved controls
  - Present findings to senior management and obtain “go forward” approval
  - Obtain service changes with affected banks

# Developing a Cash Control Program (cont.)

- **Step 3 - Maintenance**
  - Assign new cash control responsibilities to staff
  - Adjust bank fee budget for additional service fees
  - Nurture partnerships with operating personnel
  - Review the cash control program on a regular (at least annual) basis with the affected operating group
  - Periodically confirm bank account inventory and service features with banks
  - Availability of resources will always be an issue

# Bank Account Assessment

- Bank Account Risk Ratings
  - Company-specific “perceived risk points”
  - Technology changes create new PRP’s
    - E Commerce, Digital Security, etc.
  - Be prepared to change risk weighting with environmental changes
    - Bank credit changes, country risk, mergers, etc.
  - Exposures can be categorized by dollar volume
  - Should be linked to treasury workstation and/or other control reporting systems

# BANK ACCOUNT ASSESSMENT RATING TABLE

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### ACCOUNT RECONCILIATION

Not Apply	0
Treasury	0
Operating Company-Headquarter	1
Operating Company-Remote	2
Accounting Firm	2
Joint Venture	3
NON XYZ Company	4

### BALANCE MONITORING

Not Apply	0
Treasury - Daily	0
Treasury - Interim	1
Operating Company - Daily	2
Operating Company - Interim	3

### CASH ACCOUNTING

Not Apply	0
Treasury	0
Operating Company-Headquarter	1
Operating Company-Remote	2
Joint Venture	3
NON XYZ Company	4

### DEPOSIT METHOD

None	0
Lockbox	0
Armored Car/Courier	1
Customer Direct	1
Employee Handling	2

### DISBURSEMENT METHOD

Not Apply	0
ZBA (Internal)	0
ACH	2
Check-Positive Pay	2
Wire	2
Check / DTC	4
ACH / Check with Positive Pay	2
Direct Debit	3

### RECEIPT METHOD

Not Apply	0
Wire	0
ZBA (Internal)	0
ACH	1
Check / DTC	2
ACH / Check	2
E Commerce Credit	1

Note: see Legend on Page 3

# BANK ACCOUNT ASSESSMENT RATING TABLE

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### COUNTRY RISK

90th Percentile	0
80th Percentile	1
70th Percentile	2
60th Percentile	3
40 to 50th Percentile	5
Below 40th Percentile	7

### DOMESTIC vs FOREIGN BANK

Domestic-Credit(Foreign)	0
Domestic-Credit(Domestic)	0
Domestic-Other(Domestic)	1
Domestic-Other(Foreign)	1
Foreign-Credit(Foreign)	1
Foreign-Credit(Domestic)	1
Foreign-Other(Foreign)	3
Foreign-Other(Domestic)	2

### ACH DEBIT FILTER

Yes	0
No	2

### CHECK STOCK RISK

Not Applicable	0
Standardized Security Features	0
Non-standard Features	2

### AUDIT FREQUENCY

Regular cycle - External	0
Regular cycle - Internal	1
Regular cycle - Both	0
Irregular cycle - Internal/External	2
None	3

### NUMBER OF SIGNERS

Less than or Equal to 3	1
Greater than 3	2
Greater than 5	3
Greater than 25	5

### WITHDRAWAL LIMITS

Yes	0
No	1

### EFT CAPABILITY

Not Apply	0
Treasury-System	1
Treasury-Verbal	2
Treasury-System&Verbal	3
Operating Company-Input Only	3
Operating Company-Input&Appro	4
Operating Company-Verbal	5

### BANK CONTRACTS - LANGUAGE

Relies on UCC/NACHA Rules	1
Bank assumes Liability	0
Company assumes Liability	2

### BANK CONTRACTS - STATUS

Regularly reviewed/updated	0
Irregularly reviewed	1
Not In Place	3

# BANK ACCOUNT ASSESSMENT RATING TABLE

## PAGE 3 OF 3

### SIGNER CLASSIFICATIONS

TREASURY EMPLOYEE	XYZ EMPLOYEE	SECOND SIGNER	SIGNER TYPE	
Yes	Yes	Yes	Manual	0
Yes	Yes	Yes	Facsimile	0
Yes	Yes	Yes	Both	1
Yes	Yes	No	Manual	0
Yes	Yes	No	Facsimile	1
Yes	Yes	No	Both	1
No	Yes	Yes	Manual	1
No	Yes	Yes	Facsimile	0
No	Yes	Yes	Both	2
No	Yes	No	Manual	2
No	Yes	No	Facsimile	1
No	Yes	No	Both	3
No	No	Yes	Manual	3
No	No	Yes	Facsimile	0
No	No	Yes	Both	6
No	No	No	Manual	4
No	No	No	Facsimile	3
No	No	No	Both	7

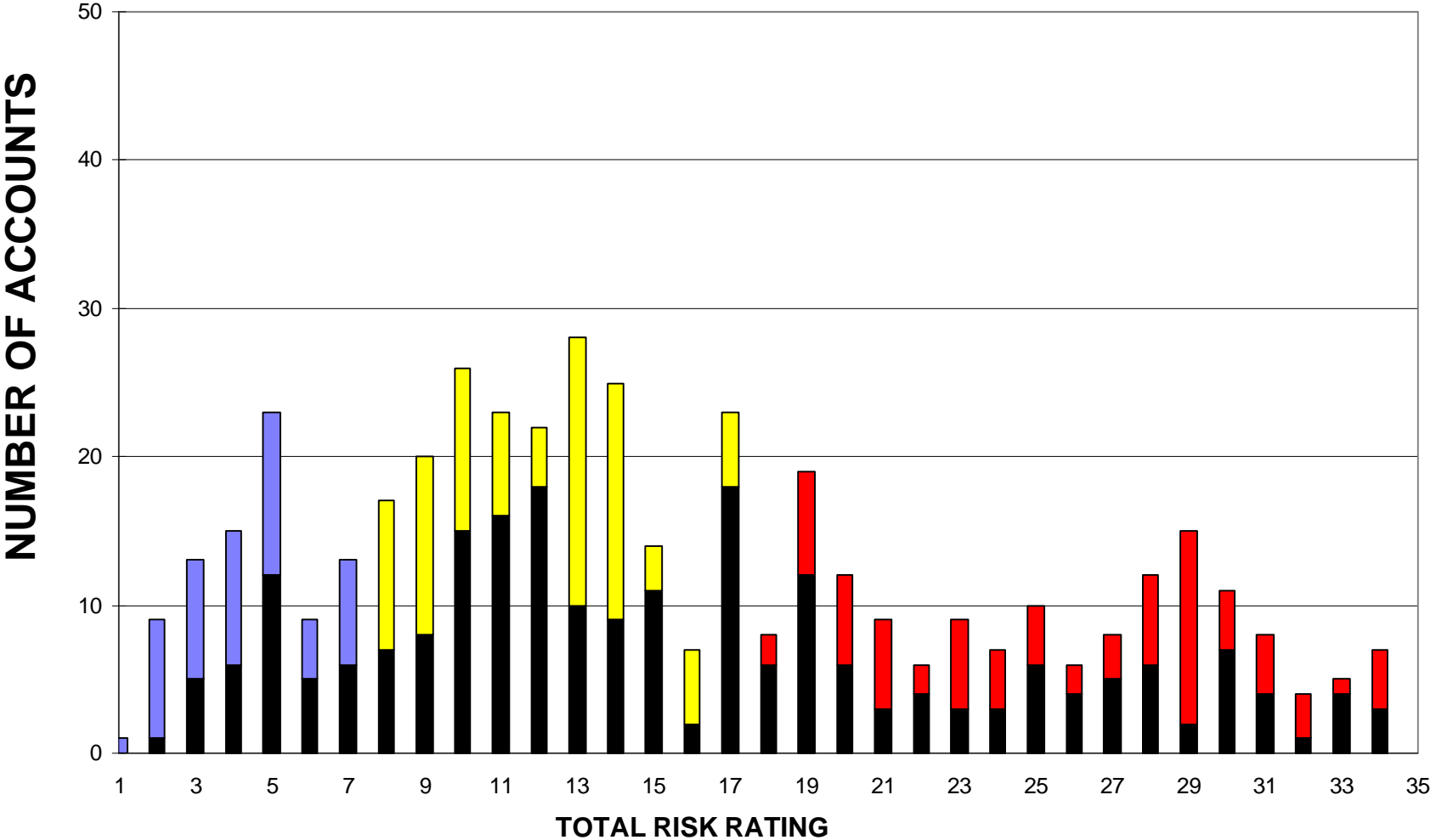
### LEGEND

- 0 - no concern
- 1 - minor concern
- 2 - moderate concern
- 3 - significant concern
- 4 - minor panic
- 5 - moderate panic
- 7 - major panic

## RISK RATING TABULATION/COMPARISON

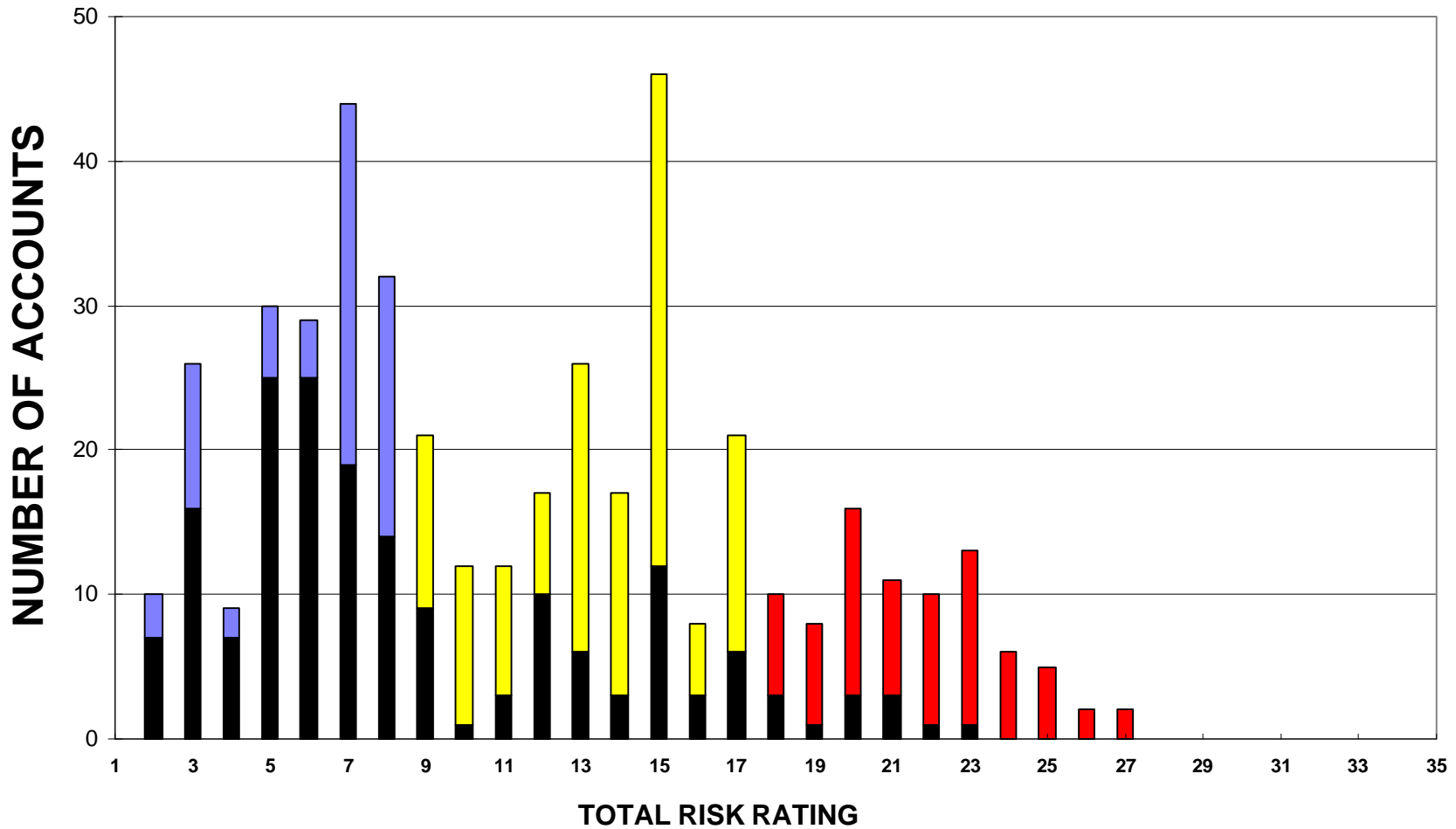
<u>RISK CATEGORY</u>	<u>DOMESTIC DISBURSEMENT</u>		<u>FOREIGN DISBURSEMENT RECEIPT ACCOUNT</u>	
ACCOUNT RECONCILIATION	NON-XYZ COMPANY	(4)	OPERATING COMPANY-REMOTE	(2)
ACH DEBIT FILTER	NO	(2)	NO	(2)
AUDIT FREQUENCY	IRREGULAR/INTERNAL/EXTERNAL	(2)	REGULAR CYCLE - EXTERNAL	(0)
BALANCE MONITORING	OPERATING COMPANY-INTERIM	(3)	OPERATING COMPANY - DAILY	(2)
BANK CONTRACTS - LANGUAGE	COMPANY ASSUMES LIABILITY	(2)	RELIES ON UCC/NACHA RULES	(1)
BANK CONTRACTS - STATUS	IRREGULARLY REVIEWED	(1)	IRREGULARLY REVIEWED	(1)
CASH ACCOUNTING	NON-XYZ COMPANY	(4)	OPERATING COMPANY-REMOTE	(2)
CHECK STOCK RISK	NON STANDARD FEATURES	(2)	STANDARDIZED SECURITY FEATURES	(0)
COUNTRY RISK	90TH PERCENTILE	(0)	U.K - 90TH PERCENTILE	(0)
DEPOSIT METHOD	NONE	(0)	CUSTOMER DIRECT	(1)
DISBURSEMENT METHOD	CHECK-POSITIVE PAY	(2)	CHECK/DTC	(4)
DOMESTIC vs FOREIGN BANK	DOMESTIC-OTHER(DOMESTIC)	(1)	FOREIGN CREDIT(FOREIGN)	(1)
EFT CAPABILITY	OPERATING CO. - INPUT & APPROVAL	(4)	NOT APPLY	(0)
NUMBER OF SIGNERS	GREATER THAN 25	(5)	LESS THAN OR EQUAL TO 3	(1)
RECEIPT METHOD	ZBA - INTERNAL	(0)	WIRE	(0)
SIGNERS CLASSIFICATIONS	NON COMPANY EMPLOYEE - BOTH	(7)	COMPANY EMPLOYEE - BOTH	(3)
WITHDRAWAL LIMITS	NO	(1)	YES	(0)
TOTAL RISK POINTS		40		20

# BANK ACCOUNT ASSESSMENT PRE-PROJECT RATING XYZ COMPANY



- Over \$2MM
- Moderate Comfort
- High Comfort
- Low Comfort

# BANK ACCOUNT ASSESSMENT POST-PROJECT RATING XYZ COMPANY



- Over \$2MM**
- High Comfort**
- Moderate Comfort**
- Low Comfort**

# Bank Account Assessment

Changes from 9/30/98 to 9/30/99

	<u>Low Risk</u>	<u>Med Risk</u>	<u>High Risk</u>	<u>Total</u>
<b>Sept. 1998</b>	<b>288</b>	<b>124</b>	<b>232</b>	<b>644</b>
Opened	158	59	85	302
Closed	(250)	(45)	(178)	(473)
Rating Changes	<u>32</u>	<u>(18)</u>	<u>(14)</u>	<u>0</u>
<b>Sept. 1999</b>	<b>228</b>	<b>120</b>	<b>125</b>	<b>473</b>

# Pitfalls to Managing Bank Account Structure Risk

- Failure to obtain and keep senior management “buy-in”
- Resource allocation
  - Thin staffing, O&G cost reductions
- Failure to show how company funds could be lost
- Structure risk involves operational issues that will always appear less important than strategic projects, M&A, FX & interest hedging, etc.
- Bank personnel may not effectively communicate operational/security features