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TREASURY RESOURCES

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This presentation was originally
given by:

Ms. Susan L. DeVries, Walgreen Co.

&

Stephen J. Weiland, The Weiland Financial Group, Inc.

At the Windy City 2001

For questions about this material, contact Susan or Stephen at:

susan.devries@walgreens.com;

sjw@weiland-wfg.com

Windy City 2001

Account Analysis - Solving the Mystery

Ms Susan L. DeVries, Walgreen Co.

susan.devries@walgreens.com

Stephen J. Weiland, The Weiland Financial Group, Inc.

sjw@weiland-wfg.com

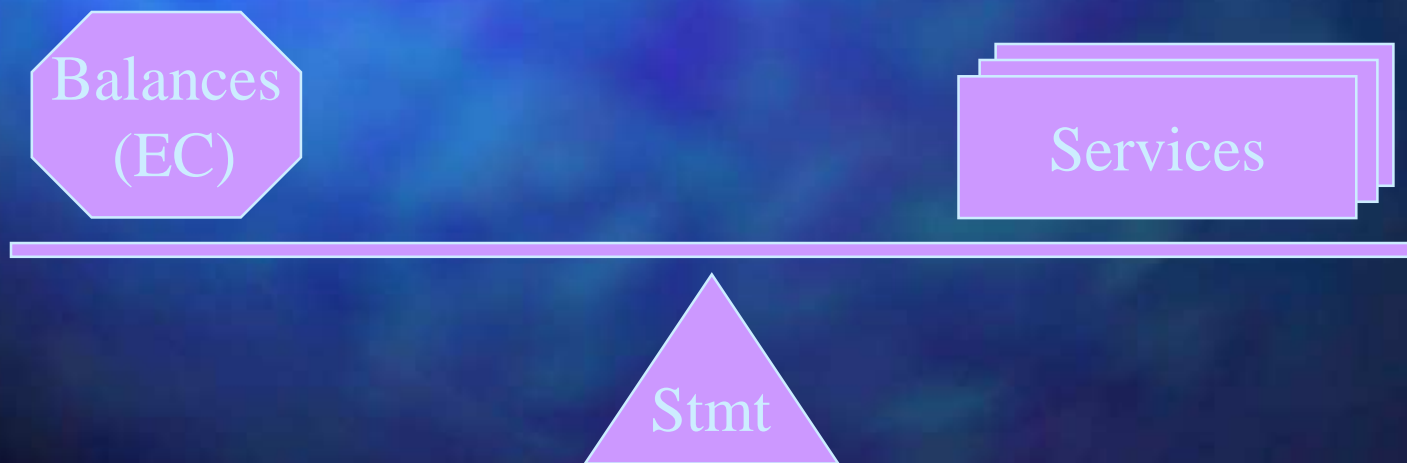
What Is Account Analysis?

- A Weighing Process
- A Record of Balances & Services
- A Bill for Services Rendered
- A Flat Out Mystery



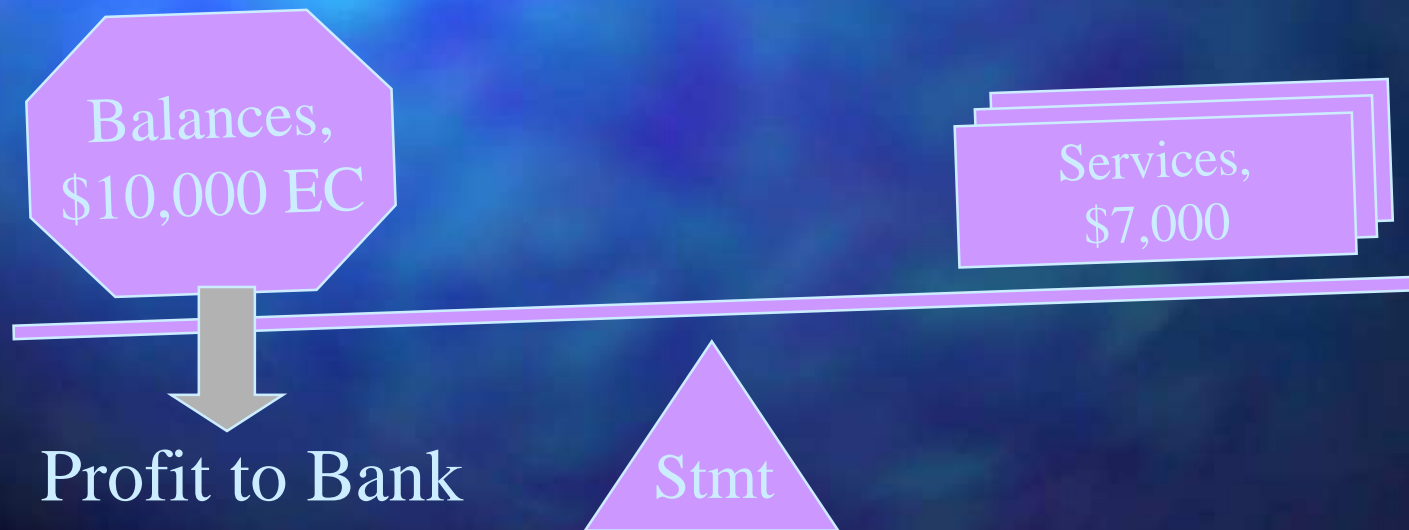
What Is Analysis?

A Weighing Process



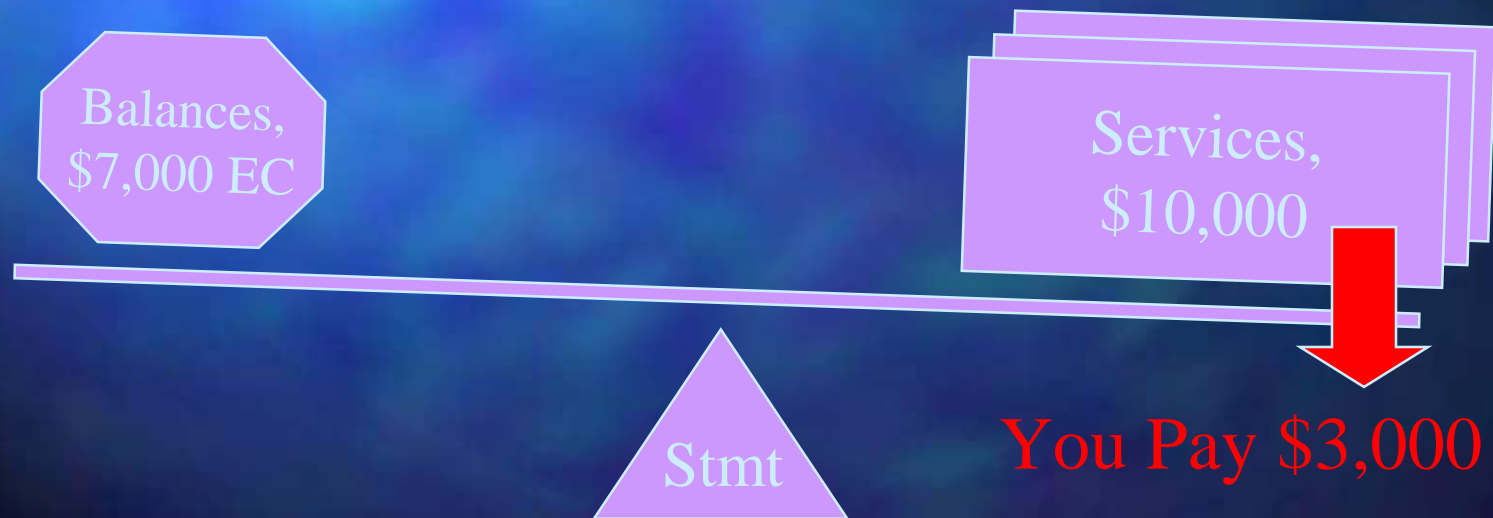
What Is Analysis?

A Weighing Process



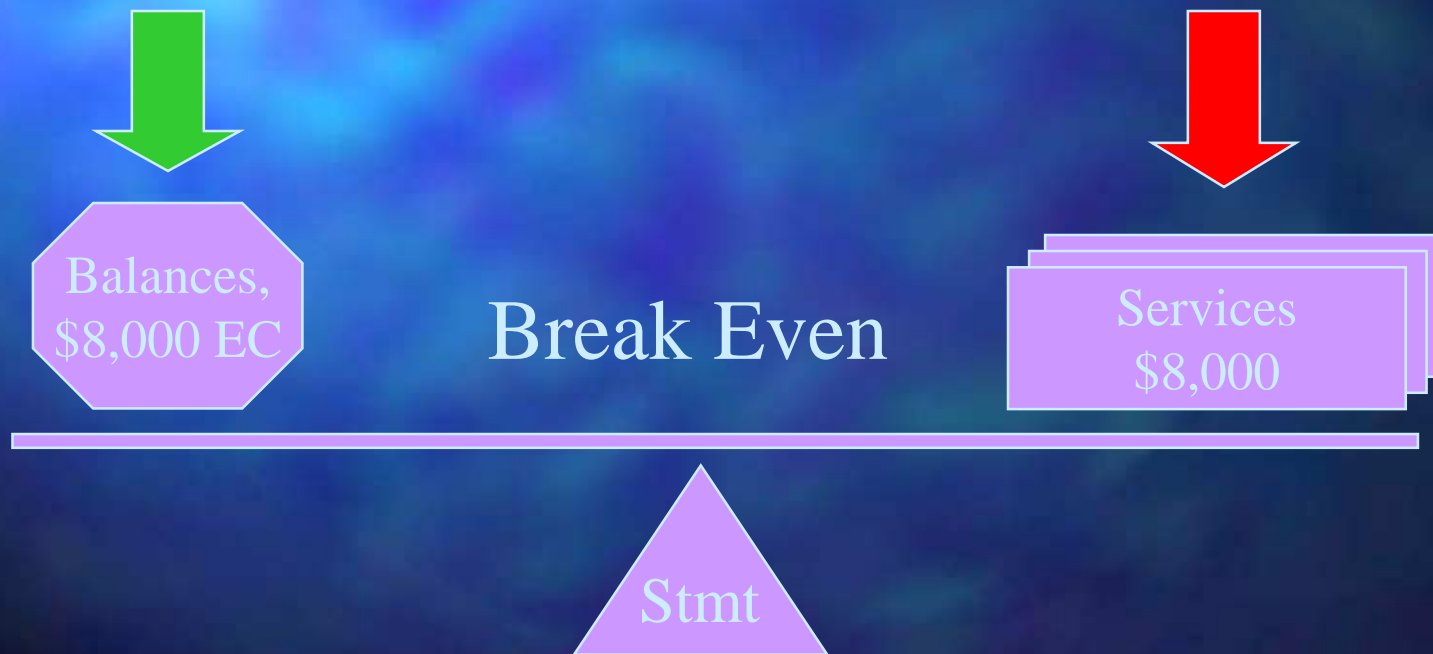
What Is Analysis?

A Weighing Process



What Is Analysis?

A Weighing Process



And now, let's start to solve
the mystery with.....

■ Me

Elements of Analysis

Balances

- Goal - To Calculate the Balance on which the Earnings Credit is Based
- Example:

Average Daily Ledger Balance	\$15,000.00
Less Float	5,000.00
Average Daily Collected Balance	10,000.00
Less Reserve Requirement (10%)	1,000.00
Balance to Support Services	9,000.00



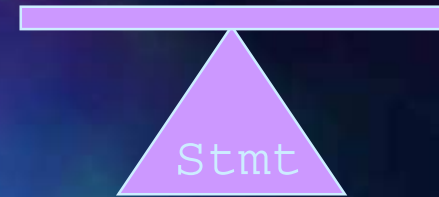
Elements of Analysis

Services

- Goal - To List and Total All Service Charges in the Statement Period
- Example:

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	3,000	8.00	20.33 ^F	
Monthly Maintenance	1	20.00	20.00	5,247
Deposit Items	200	.05	10.00	2,624
			-----	-----
Total Charges Before Credit			50.33	7,871
Compensable Subtotal			30.00	7,871
Fee-Based Subtotal (F)			20.33	

Elements of Analysis



- Goal - Establish the Compensation Position, or Who Owes What to Whom
- Example:

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 5.0%	38.11	9,000.00
Less Compensable Charges	30.00	7,870.97
Earnings Excess	8.11	1,129.03
Fee-based Charges (F)	20.33	
Total Due	20.33	



The "Baseline" Statement

Average Daily Ledger Balance	\$15,000.00
Less Float	5,000.00
Average Daily Collected Balance	10,000.00
Less Reserve Requirement (10%)	1,000.00
Balance to Support Services	9,000.00

ACCOUNT POSITION.....	..FEES	..BALANCES
Earnings at 5.0%	38.11	9,000.00
Less Compensable Charges	30.00	7,870.97
Earnings Excess	8.11	1,129.03
Fee-based Charges	20.33	
Total Due	20.33	

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Total Charges Before Credit			50.33	7,871
Compensable Subtotal			30.00	7,871
Fee-based Subtotal (F)			20.33	

Understanding Services

- Fee-based (Hard Charged) vs. Compensable

Understanding Services

- Fee-based (Hard Charged) vs. Compensable

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	3,000	8.00	20.33F	
Monthly Maintenance	1	20.00	20.00	5,247
Deposit Items	200	.05	10.00	2,624
			-----	-----
Total Charges Before Credit			50.33	← 7,871
Compensable Subtotal			30.00	7,871
Fee-Based Subtotal (F)			20.33	←

Baseline

Understanding Services


- Fee-based (Hard Charged) vs. Compensable

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	3,000	8.00	20.33	5,334
Monthly Maintenance	1	20.00	20.00	5,247
Deposit Items	200	.05	10.00	2,624
			-----	-----
Total Charges Before Credit			50.33	13,205

(Change Fee-based to Compensable)

Understanding Services

- Fee-based (Hard Charged) vs. Compensable

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 5.0%	38.11	9,000.00
Less Compensable Charges	30.00	7,870.97
Earnings Excess	8.11	1,129.03
Fee-based Charges	20.33	
Total Due	20.33	

Baseline

Understanding Services

- Fee-based (Hard Charged) vs. Compensable

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 5.0%	38.11	9,000.00
Less Compensable Charges	50.33	13,204.86
Compensable Charges Due	-12.22	-4,204.86
Total Due	12.22	

(Baseline was 20.33)

Understanding Services

- Fee-based (Hard Charged) vs. Compensable
- Volume Discounts, Threshold Pricing

Understanding Services

- Fee-based (Hard Charged) vs. Compensable
- Volume Discounts, Threshold Pricing

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	3,000	8.00	20.33	5,334
Monthly Maintenance	1	20.00	20.00	5,247
Deposit Items	→ 200	.05	10.00	2,624
			-----	-----
Total Charges Before Credit			50.33	13,205

Baseline



Understanding Services

- Fee-based (Hard Charged) vs. Compensable
- Volume Discounts, Threshold Pricing

SERVICES RENDERED....	VOLUME	PRICE	CHARGE	BALANCE
Collected Balance OD	3,000	8.00	20.33	5,334
Monthly Maintenance	1	20.00	20.00	5,247
Deposit Items	→ 50	.05	2.50	656
	→ 150	.04	6.00	1,574
			-----	-----
Total Charges Before Credit			48.83	12,811

(Baseline was 50.33)

Understanding Services

- Fee-based (Hard Charged) vs. Compensable
- Volume Discounts, Threshold Pricing

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 5.0%	38.11	9,000.00
Less Compensable Charges	48.83	12,811.00
Analyzed Charges Due	-10.72	-3,811.00
 Total Due	 10.72	



(Baseline was 12.22)

Understanding Services

- Fee-based (Hard Charged) vs. Compensable
- Volume Discounts, Threshold Pricing
- Maximum Charging Limits
- Waivers Based on Balance Levels
- Percentage Discount on Charge Total
- Closed / Wrong price / Not my service

Understanding Balances

- The Hidden Overdraft Charge

Understanding Balances

- The Hidden Overdraft Charge

Average Daily Ledger Balance	\$15,000.00
Less Float	5,000.00
Average Daily Collected Balance	10,000.00
Less Reserve Requirement (10%)	1,000.00
Balance to Support Services	9,000.00

(Remember, there is a \$3,000 collected OD along with a specific charge!)

Baseline

Understanding Balances

- The Hidden Overdraft Charge

Average Daily Ledger Balance	\$15,000.00	
Less Float	5,000.00	
Average Daily Collected Balance	10,000.00	
Plus OD Collected Balance	3,000.00	←
Average Daily Positive Collected	13,000.00	
Less Reserve Requirement (10%)	1,300.00	
Balance to Support Services	11,700.00	←

(**Baseline balance was 9,000.00**)

(Remember, there is a \$3,000 collected OD along with a specific charge!)

Balances

Understanding Balances

■ The Hidden Overdraft Charge

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 5.0%	38.11	↔ 9,000.00
Less Compensable Charges	48.83	12,811.00
Compensable Charges Due	-10.72	-3,811.00
Total Due	10.72	←

Baseline

Understanding Balances

- The Hidden Overdraft Charge

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 5.0%	49.55	11,700.00
Less Compensable Charges	48.83	12,811.00
Earnings Excess	.72	-1,111.00
Total Due	0.00	

(Baseline was 10.22)

Understanding Balances

- The Hidden Overdraft Charge
- Tiered Earnings Rates

Understanding Balances

- The Hidden Overdraft Charge
- Tiered Earnings Rates

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 5.0% ←————→	49.55	11,700.00
Less Compensable Charges	48.83	12,811.00
Earnings Excess —————→	.72	-1,111.00
Total Due	0.00	

Baseline, NO Earnings Tiers

Understanding Balances

- The Hidden Overdraft Charge
- Tiered Earnings Rates

ACCOUNT POSITION.....	..FEES	.BALANCES
Earnings at 6.0% ←————→	59.46	11,700.00
Less Compensable Charges	48.83	12,811.00
Earnings Excess —————→	10.63	-1,111.00
	(Baseline Excess was .72)	
Total Due	0.00	

6.0 % on Balances over \$10,000

Understanding Balances

- The Hidden Overdraft Charge
- Tiered Earnings Rates
- Extended Compensation Cycle

Understanding Balances

- The Hidden Overdraft Charge
- Tiered Earnings Rates
- Extended Compensation Cycle

MONTH	CREDITS	CHARGES	EXCESS/DEFICIT	
Apr	50.00	40.00	10.00	Goodbye! ←
May	59.46	48.83	10.63	Goodbye! ←
Jun	40.00	48.00	(8.00)	Pay bank ←
	-----	-----	-----	
	149.46	136.83	12.63	Yes!

Understanding Balances

- The Hidden Overdraft Charge
- Tiered Earnings Rates
- Extended Compensation Cycle
- OD Interest on Negative or Net
- Right of Offset - Monthly / Daily
- Pay with Balances or Fees

Understanding Balances

■ Pay with Balances or Fees?

Assumptions: Monthly Compensable Charges = \$1,000, Bank Net-of-Reserves Earnings Rate = 4.5%, Requirement Factor = $1/(4.5 * (30/360)) = \$267$, CD Per Annum Rate = 5.0%

Balance Approach:

Monthly Balance Required: $\$1,000 * 267 = \$267,000$
 Plus 10% balance cushion: 26,700
 Total Monthly Average Balance Used: **\$293,700** ←

Fee Approach:

	<u>Income</u>	<u>Expense</u>	
Monthly Fees:	0	\$1,000	←
Monthly CD Interest:	\$1,224	0	↔ ($\$293,700 * 5.0\% * 30/360$)
Transfer Fees:	<u>0</u>	<u>50</u>	←
Net Monthly IBT:	\$1,224	- \$ 1,050	= \$174.00 ←
		Less 20% Tax on Net:	<u>34.80</u> ←
		Net Gain:	\$139.20 ←

Let's continue the solution
with.....

- Susan DeVries, the Bank Customer

Retail Perspective

■ Ultimate Goal

- Get deposits out of stores for same day use of funds in concentration bank.

■ Challenges

- Location of stores
- Number of stores

■ Organization

- 50+ depository banks
- 1 concentration banks
- 1 disbursement bank



Retail Perspective

- Account Analysis Statements Can Help
 - Organize bank relationships
 - Structure account relationships within banks
 - Provide a foundation for dialogue with bankers
 - Identify opportunities to clean up internal operations

Organize Bank Relationships

- Stating the obvious...
 - Where do you have accounts open?
 - Does every bank send an analysis statement?
 - How are banks compensated for services?
 - When (how often) are fees paid to each bank?
 - Where can you consolidate
 - Mergers and Acquisitions?
 - Layout of the statement can be a huge tipoff

Structure Account Relationships

- Consolidate: pay one bill per bank
 - Master/Sub-account relationships
 - “Roll-up” balances and service volumes
 - Offset shortages with excess balances
 - Ease reconciliation
 - Scrutinize sub-accounts for problems

Structure Account Relationships

- Understand function of each account
 - Depository?
 - Concentration?
 - Disbursement?
- Learn to recognize service charges (un)related to each function
 - Money Orders?
 - Safe Deposit Boxes?

Relationship Management

- Communicate corporate goals to bank
 - Ask for assistance
 - Take a tour of bank operations to understand the services they provide.
 - “Please explain how you arrive at this charge?”
 - Communicate procedures to bank.
 - Bank Review/Report Cards
 - Clarify expectations for service
 - Best Practices Review

Relationship Management

- Get pricing contracts in writing
 - “If you don’t move on, your banker will.”
- Maintain copies of all correspondence.
- Keep length of contract to a reasonable minimum
 - RFP vs. RFI
 - Alternate Bank Analysis
 - Phoenix-Hecht Blue Book of Bank Prices

Points To Consider

- 822 Files
 - What to do with it?
 - Quality: paper vs. electronic
 - Download problems (internet, please!)
- TMA Codes
 - Use them. Try not to abuse them.
- Earnings Rates
 - Compare to investment/borrowing rates

A New Twist...

- Wal-Mart Stores, Inc.
 - Forget all the service line item charges.
 - Pay portion of every \$1,000 deposited and any Ledger OD Fees. ONLY.
 - Pricing Factor is negotiated based on account analysis history.
- Pros/Cons
 - TBD

A Few Words On Pricing Errors

- They Happen

And now let's automate the
solution with.....

- Steve Weiland, the
software person

The 822 Electronic Analysis Statement

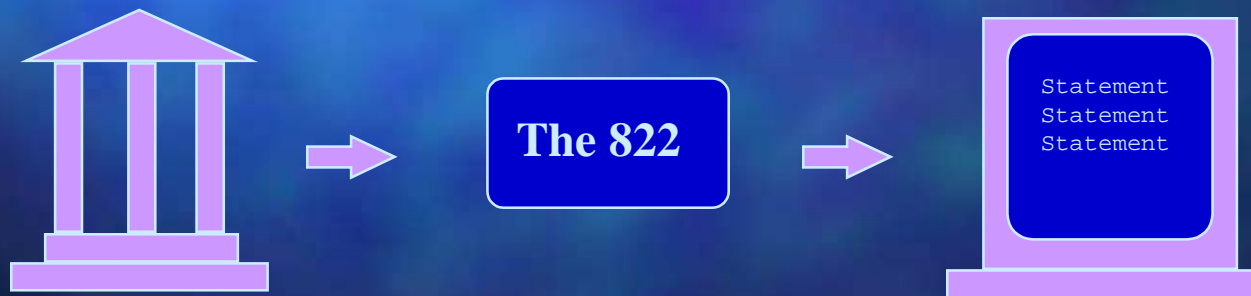
- What is it?
- Why is it?
- Who's Doing It?
- A Point of Interest



The 822: What is it?



An Alternative EDI Delivery Mechanism



The 822: What is it?

- Customer Account Analysis Transaction Set 822
 - Used to transmit detailed balance, service charge and adjustment data
 - From a bank to its customers
- Defined within ANSI ASC X12 EDI
 - A national standard
 - An EDI tool
- A Tool for Cash Managers
 - Do what you do now - but faster
 - Do what you do now - but completely
- "TMA Guide to Account Analysis: Statement Standards and Transaction Set 822 Implementation Guide"

A "Raw" 822

```
ISA*00*                *00*NOPASSWORD*ZZ*07500002                *ZZ*112319
120                    *901218*1700*U*00302*000004914*0*T* ]\GS*AA*SENDERCO
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Center\N4*Gotham City*NY*999999999\PER*IC*I. M. Gridley*TE*2
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20*SE*CAD*NY*007*840821*1400\N1*AO*N.C. CEEMA\N3*7001 Boxwoo
d Drive\N4*Oldtown*CT*123459999\PER*IC*Jason Brown*TE*212333
4444\ACT*232323*Division B****AB-12345 6\ADJ*F*775000*-25000
*930515*930801*1*FLOAT ADJUSTMENT\ADJ*L*59520*9600*930702*93
0815*5*WIRE ERROR\ADJ*L*74400*2400*930728*930820*1*CHECK ERR
OR\ADJ*L*-1200*-1200*930728*930729*1*DEBIT ERROR\RTE*9.83*12
***930131\RTE*9.943*12***930228\RTE*9.568*12***930331\RTE
*9.341*12***930430\RTE*8.807*12***930531\RTE*7.841*12***9
30630\RTE*8.182*12***930731\RTE*8.125*10*7.898*161.015*175.
06*930831\BAL*M*AL*1234567.89\AMT*AC*.12\AMT*AD*123456789.12
\AMT*8*1212121212.12\AMT*SC*232322323.23\AMT*NP*-3434343434.
34\AMT*CB*987654321.11\DTM*151*930131\BAL*M*AL*300000\AMT*AC
```

The 822: Why is it?

- Electronic handling is much more enabling because you can:
 - check all bank calculations (find errors)
 - check expected balances, volumes, prices
 - allocate bank charges automatically
 - perform modeling and “what if”
 - compare divisions, departments, regions, etc...
 - export data to existing systems
 - perform bank-to-bank comparisons
 - examine each and every line item charge
 - archive statements electronically

The 822: Why is it?

- An Opportunity Because:
 - Bank charges run over \$5 billion per year
 - Service unbundling leads to more line items
 - Compensation shifting from balances to fees
 - Electronic handling enables thorough inspection & verification

The 822: Consider This:

One service line item buried within **thousands** of lines across **hundreds** of statements. What can this line tell me? What questions can I ask about this service?

TMA	DESCRIPTION	PRICE	VOLUME	CHARGE
050100	Lockbox Processing	.1200	12,000	1,440.00

I don't recognize this service!

Is that the special price I negotiated?

Hold it, there's been a price change.

I think that volume is unreasonably high.

Is this the exact volume I expected?

Is this close to the average charge over the last three months?

How does this price compare to other banks?

The 822: Who's Doing It?

ABN AMRO

LaSalle National Bank, IL

Bank of America, NT & SA

Nations Bank

Barnett

SeaFirst

Bank of New York, NY

Bank of the West, CA

Bank One, all locations

First Chicago

NBD

BancWest Corp, HI

Bankers Trust, NY

Branch Bank & Trust Co., NC

Chase, all locations

Chevy Chase Bank FSB, MD

Citibank, NY

Comerica, MI

Commerce Bank, MO

Deposit Guaranty, MS

Fifth Third, OH

First Bank, MN

First Fidelity, PA

First Interstate, all locations

First Maryland, MD

First Union National Bank of FL

Corestates

Firststar, WI

Mercantile Bank, MO,IL,KS,AR

FleetBoston Financial Corp, CT

Bank Boston Corp, MA, CT

Fleet Bank, CT

Shawmut, CT

First National Bank N. Platte, NE

The 822: Who's Doing It?

First New Hampshire Bank, NH	PNC, PA, OH, KY, DE
First Tennessee Bank, TN	Provident Bank, OH
Glendale Federal Bank, CA	Riggs National Bank, D.C.
Harris Trust & Savings, IL	Signet Bank, VA
Huntington National Bank, OH	Society National Bank, OH
HSBC, CA, NY	State Street Bank & Trust, MA
International Bank of Chicago	SunTrust Services Corp, FL, GA
Key Bank	Crestar Bank, VA
Marine Midland	Summit Bank
Maryland National, MD	Toronto Dominion Bank, Canada
Mellon Bank, PA	Trust Company Bank, GA
M&I First American, WI	Union Bank of California, CA
Michigan National Bank, MI	U.S. Bancorp, WA
Midlantic, NJ	Wachovia, NC
Morgan Guaranty, NY	Wells Fargo, CA
National City Bank, OH	Norwest, AZ, IN, IA, MN, NE, CO, WI
Northern Trust Company, IL	Wilmington Trust, DE
Oakbrook Bank, IL	

Some Closing Points

- Review Account Analysis Monthly
- Automate the Process
- Need Help? Consult your Friendly Banker
- Thank You, and Goodbye.

