

Aiming for a Standard Approach to Account Billing

by Terence Devine and William Faulkner, Managers – Global Operations Services, GE Corporate Treasury

In the US a multi-banked company can be assured that it can always get one standard of reporting on its banking activity, whether for balance and transaction reporting, or account billing. The latter service, usually known in the US as account analysis, has been one of the most successful corporate treasury initiatives. Through the AFP (Association for Financial Professionals), the US treasurers' association, one standard approach has been adopted for account billing. Each banking service provided is given a reference number, which is used by all the banks. So an ACH receipt will have exactly the same reference number at each bank. Given also that most corporate banks provide this service electronically as a standard file (ANSI 822), this makes checking bank charges against agreed fee levels and comparative analytics a relatively easy and fully automated task.

This is fine for companies that only have bank accounts in the US, but if you are an international or multinational company with bank accounts held with banks outside of the US, the position is far more difficult. In some countries banks still use the outmoded approach of charging for certain types of transactions as they occur. This means that bank statements are cluttered with small debits relating to bank compensation. This is particularly frustrating for companies that have invested in an automated account reconciliation system and means that these charges are added to the numbers of failed matches. Some banks also take compensation by way of value dating or turnover charges, processes particularly disliked by most companies and very difficult to track.

Those banks that can produce some form of billing service often pose additional problems for companies:

- Will the billing analysis be standard between banks?
- Will the billing analysis cover all account activity and interest applications?
- Will all banks be able to deliver their billing analysis electronically?

The answer to these questions in Europe is a definite 'No'.

So do you know what your company is paying for its international banking services? If you don't know, welcome to the club! Many companies are in the same position. The International Bank Compensation (IBC) group initiative, led by General Electric, is looking to change that.

The IBC group initiative

Leveraging the success of its North American bank compensation project, GE is leading an initiative of multinational corporates which are interested in receiving electronic billing statements in a standardised format from their international banks. The group already includes over 40 major US companies, covering many industries, companies such as General Electric, AT&T, Chevron Texaco, EDS, Honeywell International, International Paper, Lucent Technologies, Pfizer, Textron and UPS. Additionally members from various treasury industry organisations and standard setting agencies are involved. In Europe the group has started a dialogue with The Euro-Associations of Corporate Treasurers (EACT) with a view to involving major European companies in the initiative, and with TWIST, the corporate-led treasury standards body. The latter organisation may be the ideal organisation to set and manage an international billing standard as already a number of international banks are co-operating with it in other areas. In the US the group is being advised by Steve

summary

Do you know what your company is paying for its international banking services? Very probably not, but a group initiative, led by General Electric, is aiming to revolutionise the currently muddled position in Europe with regard to billing services. The International Bank Compensation (IBC) group initiative is building on the success of the company's North American bank compensation project and trying to establish in Europe a simple standard for an electronic billing statement, making international bank fees as transparent in Europe as they are in the US. The authors describe the challenges posed by this initiative, what the banks have to do and the potential gains for all concerned.

Weiland of Weiland Financial Group and in Europe Tony de Caux at BRC Consulting Services is working with the group.

The group proposes to focus first on Europe where most of its members have significant activity. Many banks in the European Union could do more to comply fully with the spirit of the European Commission's drive towards total transparency of banking fees. Additionally American companies are coming under more scrutiny relating to financial controls as a result of the Sarbanes – Oxley Act, and a number of similar laws may soon impact European companies. International bank compensation seems to be an area which few, if any companies can claim to have control over. The group feels that with Basel II's commitment to improving banks' operational excellence, this effort will further the IBC cause by enhancing compliance requirements and automating processes.

Requesting electronic billing from the international banks is nothing new. Many corporates have approached their banks individually asking for this over recent years. The IBC initiative, rather than a one-off approach, is a concerted effort by a group of major companies.

The IBC Group wants an electronic billing statement to contain account level line item detail of bank service descriptions, volumes, unit prices, and total prices, in addition to account balance information and interest paid. In the US, the accepted (and expected) practice is for a bank to send its clients a monthly electronic billing statement (account analysis).

The electronic billing statement provides a company with

an efficient, automated way to check and analyse bank fees. The statements are imported into an account analysis software package, which (among other things) produces exception reporting. GE's success in automating this process in the US has been nothing short of phenomenal. The entire process has been digitised, GE knows exactly what is being paid, and well over \$3m has been saved. These savings have come from pricing differences between what has been agreed and what was billed, and from relationship consolidations i.e. getting the bank to treat a number of entities as members of the GE group and standardising charges at the group level.

Those international banks that can bill monthly typically direct debit a given company's bank account on a monthly basis for the fees incurred. These debits usually appear on a bank statement, with little or no supporting detail.

The IBC group is not looking to change international billing practices radically. What it is aiming for is to receive an electronic billing statement in a simple standard. To date the international banks have been resistant to this idea. Some of these banks somehow feel that they are different. The fact remains that (on both sides of the Atlantic) cash management services are provided to a corporation and the bank provider is compensated for those services. Mainly for compliance reasons, the IBC group needs international bank fees to be as transparent as they are in the US.

Threefold challenges

The challenges of the initiative have been threefold:

Many banks in the European Union could do more to comply with the European Commission's drive towards transparency of banking fees.



Terence Devine

1. Making this a priority at the banks (i.e. commitment of resources)
2. Getting the international banks to adhere to a standard for transmission
3. Getting an electronic billing statement into production.

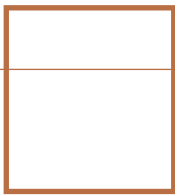
As for a standard, one possibility is the ANSI 822 Electronic Statement format. It is used to transmit detailed balance, service charge and adjustment data from a bank to its customers in an electronic format. Many North American banks currently produce 822 files and send them to hundreds of corporations. These corporations have purchased software or created their own systems designed to read, interpret and use the 822 and its contents.

What banks should do – and what they gain

What must an overseas bank, or any bank for that matter, do to produce an electronic billing statement? There are three efforts involved:

The first is the collection of the existing billing information generated during the course of a month into a centralised electronic storehouse. This information exists because it is already being used to produce paper statements, notices, and bank internal volume and charging reports. By its nature this is an effort that must be performed by any bank.

The second effort is the actual construction of the electronic statement files to be delivered to their customers. There are third party consulting and software resources available that can drastically reduce the effort and time involved in constructing and archiving these files.



The third effort is the development of a delivery mechanism to deliver the files to the end point customer.

What's in this for the banks?
Three things:

1. Consolidation of the corporate relationship – making it easier for banks to understand how they make their money from their corporate customers
2. Control – knowing what the bank is billing enables it to determine global profitability by product area
3. Competitive advantage – clearly obtained over those banks that cannot offer this.

The key issue for corporates is control. The scary part is that most treasurers do not know what their company is paying in international bank fees. IBC's concerted effort hopefully will change that.

Banks should expect to see electronic billing appearing as a requirement in many US based multinationals RFPs in the near future. All things being equal, this could be the differentiating factor that starts to win business for international banks. □

GE Corporate Treasury

GE (NYSE: GE) is a diversified technology, media and financial services company dedicated to creating products that make life better. From aircraft engines and power generation to financial services, medical imaging, television programming and plastics, GE operates in more than 100 countries and employs more than 300,000 people worldwide.

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