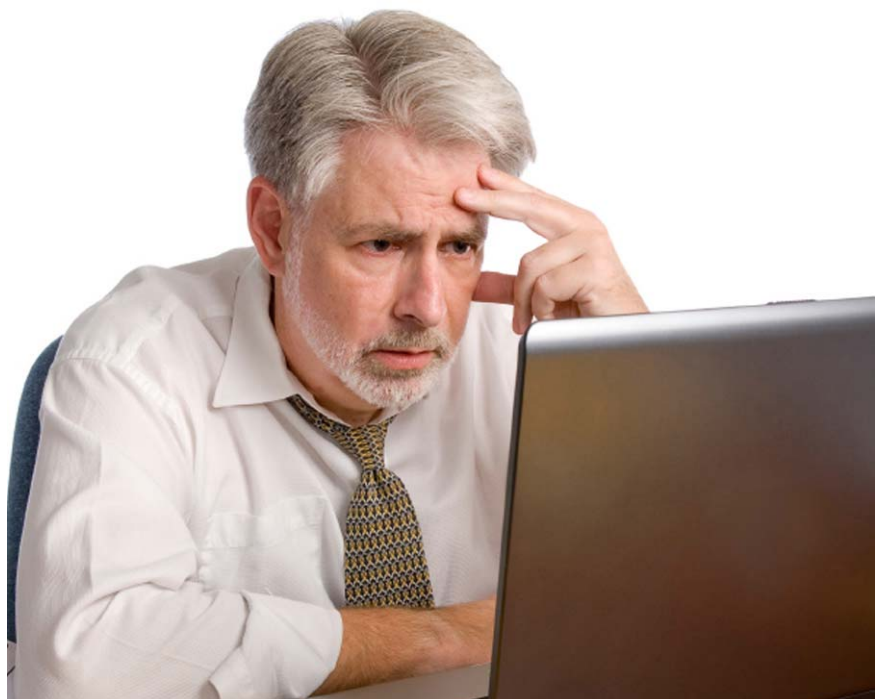


As the need to optimise banking relationships grows,
can an in-depth analysis by **Bankhawk**
send **tangible savings** to the bottom line?

Managing cash resources is a challenge for any executive team. With the banking community more restrictive in its relationships with customers than at any time in the past twenty years, finance directors have no choice but to optimise the value of the banking arrangements. When the enterprise has relationships with multiple institutions, and is trading internationally in a basket of currencies, that challenge increases by an order of magnitude. Factors such as exchange rate fluctuations, local interest rates and the standing of the institution where accounts are maintained should be drawing management into a detailed examination of the funding dynamic. In our analysis of the corporate treasury role in medium and larger scale organisations, it became clear from the Association of Corporate Treasurers (ACT) that, while an emerging generation of data mining and reporting tools can access a broader spread of information on a company's performance, the source material is essentially accounts-orientated and forms only part of the input to a complete decision-making process.

Potential savings of £500,000+ through more effective administration of banking relationships prompted Bankhawk to develop its Analytics engine. We examine the rationale behind the development of the system and consider the scope for taking the solution into new markets.



The ACT response indicated that the cost of delivering and managing funds for the business is an increasingly important consideration: opportunities had to be sought, for example, to reduce interest payments on loans or increase the yield on deposits wherever practicable.

It would be easy to dismiss those observations as promotion for the role of corporate treasurers on the grounds that any manipulation of sums in accounts is likely to have a minimal effect on the performance of a business or its bottom line. With interest rates on deposits at historically low rates, can it really matter whether a multinational has \$US300,000 on deposit in Zurich or today's Sterling equivalent sitting in Barclays in London?

Of course, make the same sum move in euros to a small bank in Athens, however, and the edges of the discussion become blurred with political concerns and the viability of the institution.

Extend the scenario to countries across the world, in currencies less stable than those of Western Europe or the US, and it becomes clear that there is a major responsibility within the organisation for controlling and optimising the company's global banking relationships.

Currency issues aside, the global banking industry remains fragile as a result of the credit crunch that began in 2008; as a consequence, managing banking relationships has become central to many corporate risk management strategies. On a macro level different economies are at differing stages with regards to re-establishing banking sector stability.

For the informed executive with powerful information systems, this creates significant opportunities to take advantage of the inflated deposit rates available in certain markets without the need to take on additional risk. In the current environment it is not uncommon for an international bank to have completely different deposit pricing for different customers.

Senior managers are not aware of the precise level of the funds they hold in different types of account or the levels of interest being paid out on each. A business trading in five countries could be operating 60+ accounts; each with its own profile of interest rates, notice periods and risk. The greater the diversity of accounts, currencies and financial institutions involved, the greater the potential benefit from managing funds more effectively.



Snapshot of banking position

For the hard-pressed financial managers within the organisation, there are not enough hours in the day to be tracking interest rate levels in Istanbul or the notice period on withdrawals in Western Australia.

So, while a snapshot can be taken of the physical level of funds held in a variety of accounts around the world for the purpose of constructing a consolidated balance sheet, that global number is strictly one-dimensional and gives no perspective on whether this is the optimal arrangement. Is the business losing out on greater interest that it could be receiving or paying excessive bank fees that could be avoided?

There is a concern that senior managers within an organisation are not aware of the precise level of the funds they hold in different types of account or the levels of interest being paid out on each. A business trading in as few as five countries could be operating upwards of sixty accounts; each with its own profile of interest rates, notice periods and potential risk.

The reasoned assumption has been that, from a corporate perspective, the aggregate level of funds and the total interest charges netted off by receipts was sufficient information for management. But the greater the diversity of accounts, currencies and financial institutions involved, the greater the potential financial savings from managing funds more effectively.

It took a senior professional from the banking sector to appreciate the benefit of being able to 'drill down' into the aggregated data and examine the impact of failing to manage the funds in play.



“We identified potential savings of around £20,000 on every £100 million revenue generated by an enterprise. The level depends on the type of business, with trading companies traditionally exercising greater control over funds and thereby standing to achieve smaller additional returns than a public sector institution might find. Savings would have to be sourced by tracking every account and the relationship under which it was operated.”

Consultancy opportunity

Back in the mid-1990's, Brian Weakliam a chartered accountant and banker by profession, realised the potential benefits for customers if they could have more ready access to information about their banking relationships.

- It would give management a visibility of cash holdings across their organisation.
- By building in Key Performance Indicators (KPIs) into the analysis, management would have independent benchmarking of their overall banking cost.
- It would improve the efficiency of banking arrangements.
- Productivity savings would be achieved as less time would be spent sourcing information.

Critically important, clients would be in a position to save money by distributing their bank holdings more effectively between accounts; optimising their company's dealings with its bankers to minimise cost without increasing the risk to them.

Yet as an employee of one of the banks which would account for just a fraction of its customer's funds, Weakliam could see that for an institution to become involved in offering such a service would be against its commercial interests. Unless, of course, that bank could prove that it had the lowest risk, lowest charges and offered the highest interest rates in every account it was offering.

Quantifying savings

The initiative for taking a global view of a company's banking operations clearly had to come from the customer's side of the fence; armed with the technology to be tracking the minutiae of account terms and rates and delivering reports on which executive decisions could easily be made.

Quantifying the potential savings was another matter. Brian Weakliam identified a figure of around £20,000 on every £100 million of revenue generated by an enterprise.

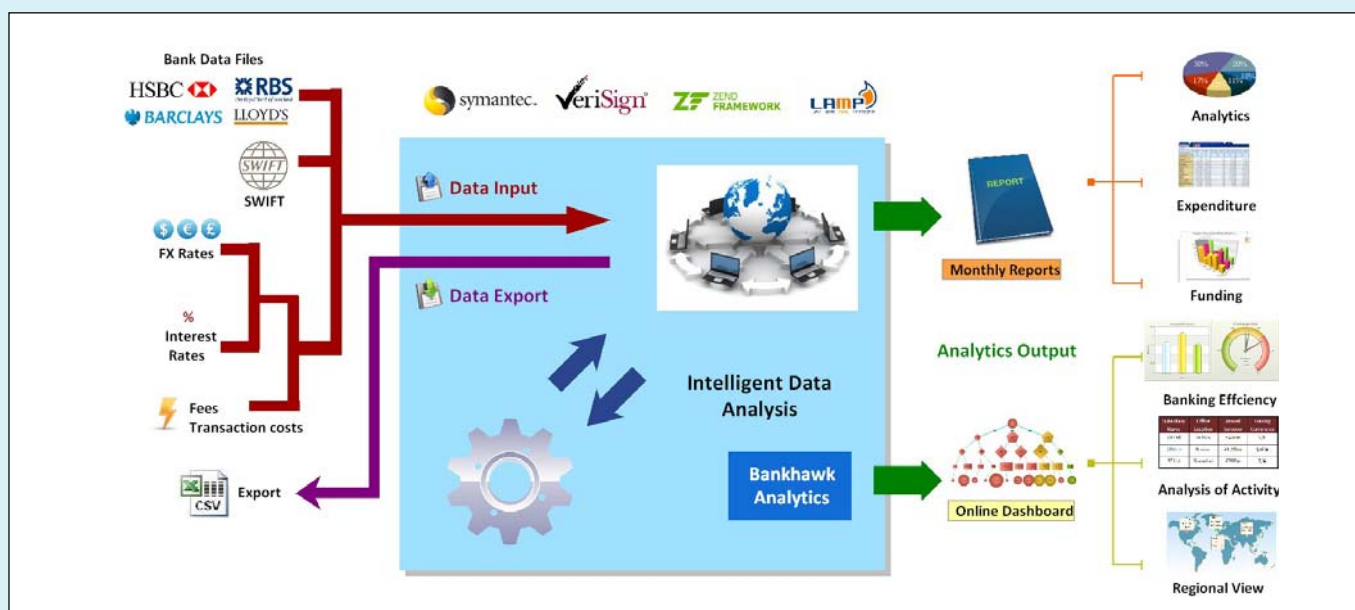
The precise level of saving would clearly depend on the type of business involved, with trading companies traditionally exercising greater control over funds and thereby standing to achieve smaller additional returns than a public sector institution might find.

The consultancy advice that Weakliam could offer clients would have to be sourced by tracking every account and the banking relationship under which it was operated. It would draw on the methodologies for analysing those companies' banking operations, using their real time data.

Developed strategy for analysis

Between 1996 and 2006, Weakliam worked as a banking advisor to corporate clients, all the while developing and testing a set of scientific modelling tools which could be used to analyse any organisation's banking arrangements and which could be applied to all banks.

Above: Brian Weakliam, CEO and co-founder of the Dublin-based Bankhawk Ltd



System developed to analyse relationships

Bankhawk Ltd was the vehicle established in Dublin in 2007 when Brian Weakliam drew together a small team of IT and banking experts - most had ticks in both boxes - with the objective of building an analytical system for use on a commercial scale.

It set out to produce a comprehensive overview of the costs and benefits of different banking strategies at all levels throughout the organisation. Providing greater information about cash balances, the service was designed to unlock cash 'trapped' in bank accounts and achieve significant savings in account interest and transaction costs. There would also be scope for simplifying clients' relationships with their banks.

The subsequent analysis would deliver the average cost of each transaction, broken down by transaction type and identify problem transactions as exception reports. Apart from tracking how costs and revenues were changing over time, the incorporation of KPIs would allow clients to compare their own performance with that of peers and the marketplace as a whole. Drawing on actual transaction charges, the service presents huge amounts of raw transaction data in a simplified way.

One option would have been to assemble that data manually, but there are limits to the speed at which this could be achieved. As Brian Weakliam was quick to note, a corporate undertaking the task would need an army of staff working for many months simply to collect and analyse the data themselves before establishing their position with their bankers. By that time, the information on account holdings, along with local interest rates and risk profiles, would be out of date.

Importing data to Analytics engine

The more logical approach was to collect data from the client's environment and load it into Bankhawk Analytics as CSV files or, in the case of some banking data, SWIFT-format files. SWIFT is the international financial network which - amongst other roles - conveys the secure inter-bank messages which activate the transfer of funds.

There is also provision for keying limited amounts of information directly into the system: this will be confined largely to data which is not held online in an electronic format, such as some interest rates or the rate of inflation in a country where an account is maintained.

The solution has evolved in the interval and Bankhawk is now supporting a growing portfolio of clients. It incorporates features that reflect the concerns within the financial community and therefore affect the risk profile for the client. Bankhawk policy is to keep the system fully attuned to changes in risk factors and regulations as they are implemented.

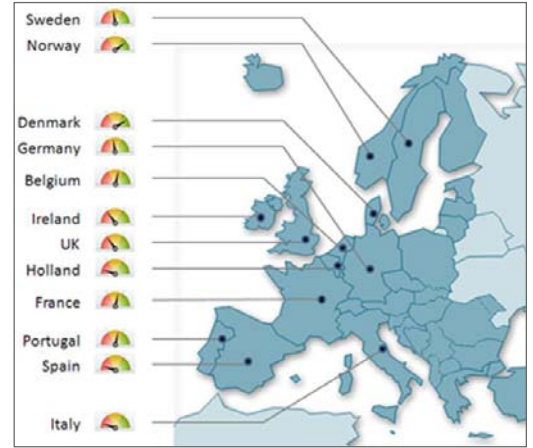
The Basel Committee on Banking Supervision, for example, has agreed the third in a series of international accords on bank capital adequacy and liquidity.

Known inevitably as Basel III, the protocol corrects deficiencies in financial regulation revealed by the global financial crisis. It has introduced initiatives on the mitigation and management of risk, and these will be incorporated in the Analytics engine of the Bankhawk system.

The global financial market is made up of banks which appear to interact but operate under different economic rules and regimes. "That is how we add value: we are intelligently looking at bank data rather than merely reporting on what has happened in the past."§

System claims to examine data intelligently rather than just report past events

“Amongst the mid-range and larger companies that we are working with, the gross savings are between £50,000 and £500,000 a year; much more for our public sector clients. Those benefits are consistent with our projections.”



Above right: Bankhawk Analytics compares banking relationships in each of the countries where an organisation holds accounts.

Below: The system generates visual comparisons between different types of receipt.

Savings achieved in practice

Bankhawk has taken an intelligent approach, but has the Analytics engine achieved any benefit for the names that Bankhawk identifies as customers? Most are high profile players in Ireland or the rest of Europe, for whom cash management is crucial. One is the Irish National Health Service, for example.

In practice, has the level of savings reached the point where they can impact positively on those organisations’ bottom line? Brian Weakliam cited some the figures: “Amongst the mid-range and larger companies that we are working with, the gross savings are between £50,000 and £500,000 a year; much more for our public sector clients. Those benefits are consistent with our projections.”

Significantly, those savings were quoted gross - before the fees to Bankhawk are taken into account. The company has adopted a flexible approach to charging for its services.

Monitoring continuous savings

The choice for Bankhawk clients is essentially between a fixed or results-based fee. Fixed fees are driven by the scope and complexity of the project as determined during an initial discussion.

Under the results-based approach, Bankhawk will waive the fixed fee, opting instead for a percentage of the savings generated as a result of the project.

As an illustration, the kind of business saving £100K gross would find itself with net savings of perhaps £40K to £50K in the first year, realising the full £100k annualised savings in subsequent years.

Regardless of the fee structure agreed at the outset, Bankhawk offers to re-engage with clients for an additional fee, providing a series of post-project checks to ensure that banking procedures remain efficient and that the banking provider is working for the client.

Offering to be paid a percentage of the savings achieved as its fee could make Bankhawk a hostage to fortune but demonstrates the confidence that the Bankhawk team has in the ability of its solution to generate real savings.

Weakliam sees the worst case scenario as one where, after a very thorough analysis, it is found that nothing needs to be done. “There is a small percentage of organisations where savings are meagre, because the company has very simple banking arrangements, though this is rare in our experience”.



Is Bankhawk heading for the clouds?

Bankhawk has reached the point in its development from which it can take its Analytics engine into new markets; both geographically and in terms of the size of business it is addressing. Supporting smaller businesses than its present audience would be one route to expansion.

The business case for geographical expansion is that companies with an international footprint and a plethora of bank accounts can be based anywhere in the world.

Provided that the Bankhawk team can build up the resources to market its services internationally, its product set is 'geographically neutral' and no additional work on the system should be required.

Brian Weakliam and his colleagues have declared their intention to target the upper echelons of the SME sector. These are not the businesses with ten staff exporting 25% of their output to three countries in Africa, but are the tier just below the corporates. By the accepted UK definition of SME, these are the companies with anywhere up to 250 staff and £50 million turnover.

At that level of turnover, the cash holdings will be correspondingly lower than for the high profile multinationals and public sector bodies which make up Bankhawk's present customer base.

Allowing for the fact that these businesses are likely to be managing their cash holdings and bank relationships less efficiently than their larger counterparts, the potential savings through the application of Analytics will be larger in percentage terms, coming in at between £20,000 to £50,000 a year for most of them.

Development required on three fronts

Bankhawk has to progress on three counts if it is to make headway in the SME sector. How the company prices its services is clearly important, as potential clients must be satisfied that they can make a tangible net saving after taking the associated fees into account.

The second consideration is whether the hugely powerful Analytics system is over-specified for the target audience: can relevant 'sub-sets' of the solution be delivered where the demand is less encompassing? And the other factor

is service delivery: does Bankhawk see a role for itself hosting the live banking data for potentially hundreds of companies from around the world?

Changing the business model to SaaS [Software as a Service], which has become the standard for cloud computing applications, should resolve the first point, with users paying on a subscription basis for the services they employ.

The argument would be that the 'smaller' businesses then being targeted by Bankhawk would be making fewer demands on the system because of their comparative lack of complexity, thereby incurring lower costs against the savings they achieve. The same approach addresses the second point about whether Analytics is too 'large' a system for this audience: a business would utilise just the elements that it needed.

More than one way to define the Cloud

On the question of service delivery, Bankhawk is logically taking a cloud computing route in that clients' data would be held neither on their own premises nor on the servers currently used for the vendor's clients. With a target date of January 2012 for the launch of this 'smaller business' implementation of Analytics, the company is understood to be concluding a hosting deal with one of the leading secure hosting environments.

Whatever else the Analytics system can do, it cannot conjure up source data. Does Brian Weakliam believe that the size of company which the new business model will address will have ready access to that information? "The system is designed to make it easy for the client to structure the data on which the analytic process is based. The incentive is that they receive back powerful information that will help improve the quality of decision-making. At each stage, the KPIs tell management what the rest of the market is doing."§

