

A Professional Guide to RFPs and Tendering for Cash Management Services

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This article explores the different aspects of how a bank cash management tender should be conducted and how the request for proposal (RFP) process should be executed. The focus is cash management services rather than other reasons for tender, such as funding requirements.

As part of their continuing focus on improving cash management practices, corporate treasury cash managers have a number of options available to them, from enhanced reporting and controls to detailed policies and complex 'payment factory' implementations. Conducting a request for proposal (RFP) is an integral part of these options to improve cash management practices. The decision to issue an RFP is typically influenced by the following factors:

- *Expiration of agreements* - existing bank agreements have expired and need to be renegotiated. This is an opportunity for cash managers to reduce pricing and improve liquidity management.
- *Changing risk strategy* - economic factors over the past few years have forced companies to re-evaluate their risk management strategies, with particular emphasis on counterparty risk due to changing views of banks' stability in recent years.
- *Automating internal processes* - demand for new banking services such as moving from using a bank's web portal for payments to full straight-through processing (STP).
- *Mergers and acquisitions* - incorporating businesses in new geographical areas or synchronising operations for newly-merged companies will demand changes to their corporate treasury and banking requirements.
- *Changing strategic direction* - in the current economy, banks are focusing on their most profitable services and regions, with services either launched in new areas, enhanced in others or withdrawn altogether from some countries, with a direct impact on their banking customers.
- *External factors* - structural market changes, such as the single euro payments area (SEPA), can be the catalyst for companies to simplify their cash management setup.

In general, a cash management RFP process should be part of an organisation-wide strategic plan with a pre-defined roadmap of actions. While the factors above are important drivers for RFPs, their importance should be aligned with a company's overall strategic objectives. Furthermore, do not underestimate the time and resources needed for a successful RFP. This covers not only the creation and execution of the RFP itself but also its subsequent implementation. Companies need to avoid re-tendering too often.

It should be additionally noted that companies are advised to only issue an RFP and undertake the RFP process when they are open-minded about which bank to award the cash management mandate.

A bank's cash management services cover a company's day-to-day operations, including payments and collections, cash concentration, and transaction and position reporting. In our experience, the selection of a banking partner is usually based on operational and technical requirements, scope consideration, pricing, service level agreements (SLAs) and timelines (including analysis, evaluation and implementation). This article therefore covers the following areas:

- Scoping the RFP.
- The RFP process.
- Bank selection criteria.
- Conclusion.

Scoping the RFP

Before the tender process begins, its scope needs to be clearly understood in the context of existing policies. For example, is cash a corporate asset, and will the local businesses be measured above or below earnings before interest and taxes (EBIT)? This clarity of mandate is vital for the treasury management team, as well as all other stakeholders. The most fundamental scoping elements are:

- Business requirements.
- Technical requirements.
- Geographic coverage.
- Inviting banks to submit RFPs.

Business requirements

Nasarius recommends that cash managers are able to provide the banks taking part in the RFP with a clear expectation of the business requirements. A key stage in this process must be for the cash manager to collect knowledge and understanding of the corporate business requirements; these are a combination of overall treasury policies and strategies, the local business needs in each country, and the IT applications involved.

As well as providing information on existing processes and requirements, we also encourage companies to describe 'to be' process scenarios in the RFP documentation to give the banks advance notice of any future planned developments. For example, an implementation of an internal bank, a netting process or a payment factory will each influence the future need for cash management services, as well as the pricing.

It is recommended for companies to include the preferred cash-pooling setup in the RFP. Companies can ask for the bank's advice for the most efficient cash-pooling solution as long as they are aware that the bank will then have the option to offer a set-up that is less suitable to the business. In most cases, zero-balance cash pools will require intra-day credit limits; if this is the case, it is fundamentally important to ensure that these are discussed and agreed during the RFP process.

Legal issues connected to pool structures, such as withholding taxes, should also be included in the discussions. Although banks are not deemed to advise corporations on legal and tax issues, they will often give uncommitted advice based on their experience.

Technical requirements

In our experience, the technical requirements are often forgotten when corporate cash managers present their business needs to the banks, resulting in the implementation process becoming more cumbersome. Therefore, providing the bank with the company's technical requirements will make the implementation easier and reduce project risk. The company's current and expected future plans around market drivers such as SEPA, anti-money laundering (AML), electronic bank account management (eBAM) and other STP tools should be included.

Geographic coverage

The final step before inviting the banks to submit their RFPs is to define how the company will scope the RFP: by geographic region, currency, or service area. The most common driver is by geographic region, with the company defining how it splits the world's regions, usually following large areas such as western Europe, Latin America or central Asia. In the event of the company having very different types of business in different locations, such as retail operations in some countries but not in others, splitting the RFP by type of business should be considered.

Although cash managers will have their own view of the geographical split, they should take into account the different regional capabilities of each bank. It is advisable to investigate local clearing membership and country-specific coverage requirements before deciding which banks to invite. This way companies will avoid banks being disqualified during the mandate process due to lack of coverage.

When companies demand multicurrency and cross-border cash pool setups, it is important to be sure of what the bank can provide in the region and if the service involves overlay structures and/or partner banks, particularly as partner-banking and inter-bank zero balancing setups have been introduced in many regions. If the company uses one global bank to provide an overlay structure, it is important that all float related to the cash pool structure is disclosed by regional banking partners during the bid, enabling the company to calculate the total cost of the selected banks.

Finally, if local legislation allows, non-resident bank accounts can be set up to simplify the account structure and this should be discussed with the banks during the RFP process.

Inviting banks to submit RFPs

The RFP process can impose a considerable burden on both the banks and the corporate itself. The number of banks invited to take part in the RFP should therefore be narrowed down to a sufficiently small number that the company is able to properly understand and thoroughly evaluate the banks' proposals.

In terms of inviting banks to take part in the RFP, most companies have a good network of relationships with several banks, due to their existing funding, foreign exchange (FX) trading, long-term investments, commodities, brokerage and other activities. In addition, cash management and treasury operations are now often more closely linked to funding relations in the aftermath of the financial crisis.

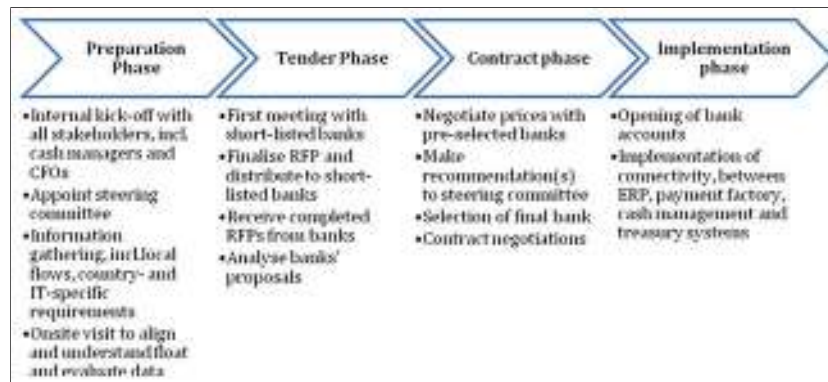
The RFP Process

Once the business needs are understood and the banks are identified to invite to take part in RFP, the cash manager should invite those banks to an introductory meeting as a prelude to the competitive RFP process. During the meeting, the company should explain the background of the RFP and the subsequent processes, objectives and timeline in order to allow the banks time to allocate appropriate resources to respond to the RFP.

The timeline of an RFP typically has four phases:

1. *Preparation* - the cash manager scopes the tender, identifies the business requirements, gathers internal information and decides which banks to invite.
2. *Tender* - the company holds introductory meetings with the chosen banks and distributes the RFP document. Banks have the opportunity to have Q&A sessions with the company before they return the completed RFP, after which the company analyses the proposals.
3. *Contract* - the company and bank sign off the capabilities and pricing while the lawyers negotiate the final legal agreement(s).
4. *Implementation* - the bank accounts are opened and the data exchange is implemented accordingly.

Figure 1: Timeline of a Typical RFP Process



Source: Nasarius

Treasury consultants regularly support corporate cash managers when conducting RFPs for new banking partners. The treasury consultants will typically provide templates and checklists for the RFP to ensure nothing is forgotten, based on both industry best-practice as well as their experience of previous RFPs.

In our experience, it is important to ensure that the short-listed banks respond to the RFP in the company's chosen format. This makes comparisons between the banks' responses much easier, fairer and more transparent. We have found that it is almost impossible to meaningfully compare responses when each bank uses its own format.

As well as providing expert knowledge and guidance, a consultant's duty is often to challenge and test the cash manager's assumptions, new process designs and bank selection. As an independent observer, the consultant is well placed to take a fresh look at a company's processes and business drivers, ultimately delivering better long-term results. The consultant will also accelerate the entire process, from the initial decision to conduct the RFP through to the chosen bank's connection to the company's treasury and enterprise resource planning (ERP) systems.

And on a day-to-day basis, the consultant will not only understand and mediate the jargon of both parties, such the technical aspects of banking and treasury systems, but also orchestrate much of the RFP-related work that would otherwise distract cash managers from their core responsibilities.

Bank Selection Criteria

The selection of the bank will depend on an evaluation of the banks' capabilities. As the banks will have different strengths and weaknesses, it is important for the treasurer to decide the selection criteria, including their relative importance, before the RFPs are distributed. However, Nasarius advises against disclosing the selection criteria to the short-listed banks to avoid their RFP responses being artificially skewed.

Samples of selection criteria include:

- Cut-off times.
- Technical capabilities to support STP.
- Cash-pool capabilities.
- Country-specific payment formats.
- Lockbox capabilities.
- Pricing.

It is worth noting that within the pricing criteria, the value of the float is sometimes underestimated, with the float element sometimes actually higher than the recurring bank fees and charges. However, in most instances, price is not the main factor influencing the decision making, with a typical weighting in the final score of 20-40%.

Conclusion

A bank cash management RFP is one of the main practices used by corporate treasurers to improve their overall treasury strategy. A properly executed RFP is a great opportunity to not only improve the bank setup strategy and co-operate with the best partner bank, but also to learn the different banks' capabilities and market trends, optimise pricing and improve value dating. However, two aspects are often underestimated when changing banking partner - the legal framework and the technical implementation.

Legal frameworks and documentation - using a new bank and opening of multiple bank accounts require a mass of legal documentation, often duplicated across multiple countries. Furthermore, most banks have stringent requirements concerning know your customer (KYC) regulations, which add to the burden of documentation.

Technical implementation - changing bank typically requires the implementation of new interfaces between the treasury management and ERP systems, with complex payment formats adding to the difficulty. Consequently, we advise against a price-driven selection process as the additional implementation time and cost will eclipse any cost savings.

Do not underestimate the importance of a cash management tender and the RFP process - once the technical implementation is complete and the company becomes familiar with and dependent on the bank's services, it can be very hard to change banking partner.

The tender and RFP process is too important to be run as a job alongside the cash manager's normal workload. It should be run and resourced as a standalone, mandated project with its own project team, steering committee, milestones and key performance indicators (KPIs). Don't forget that you will be living with your new cash management solution for many years, so make the right decisions now.

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Posted by:	Post
12 Jan 2011 - 07:49 Sergio Antonio Dalla Riva, Unicredit Group, Italy	<p>I appreciate that this article warns against cherry picking and price driven decision criteria.</p> <p>One fundamental thing is missing within the criteria for selecting the partner bank: the existence of dedicated cash management implementation and support team within the Head Quarter of the bank (better: bank group, namely each regional bank legal entity owned by the chosen financial institution), that will work together the company's project team during the set up period and will daily assist the cash manager during the operations period (investigations, new accounts, additional services,...).</p> <p>The presence of such a kind of organization within a bank is a key element to make the choice of a bank within an RFP a good medium-long term investment.</p> <p>From the bank's point of view (please not that I have a conflict of interest in this subject, but I know the contents pretty well !), the decision to equip itself with such a dedicted organization is a sign of a strategic interest in the cash management business, a real investment of resources and, again, a sign of attention and understanding to the treasurer's / cash manager's needs.</p>
14 Jan 2011 - 08:37 Kristian Rygh, Nasarius, Norway	<p>Sergio, thank you for your comment and your view, which we also share. Nevertheless we somewhat want to highlight why it was not mentioned and some potential issues on why not to include this in our original article.</p> <p>In the article we have not mentioned all the criteria we usually put forward to our customers, as the list would be too long and would need more explanations.</p> <p>Another reason for only giving a short list of samples is that the criteria decisions and weighting is one of the most important discussions we have with the client. As independent consultants we strive to avoid influencing the list of criteria too much, although we have a total list of over 50 different criteria ranging from details like "lockbox" to high level "overall technical capabilities" and "relationship".</p> <p>Another aspect to the criteria you are mentioning is of course; how do you measure it? The client can in this case either relay on the experience of the consultants and/or get references to clients with experience. The problem here is that even within a bank, the support and implementation teams can unfortunately differ a lot both in relation to quality, service level and knowledge.</p> <p>With the above comments in mind we will always bring this forward as an important criteria if the customer forgets when brainstorming/discussing the selection criteria's.</p>
27 Jan 2011 - 14:19	<p>What about RFI's (request for informaiton). We are looking to the RFI process to provide insight to our stretegic needs/goals to better leverage the inteleceual capital of our credit facility banks. We hope to use their insights to arrive at best practice solutions and proceed with a smaller group for the RFP process.</p>

Robert Waddell, Brown-Forman Corporation, United States	
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