Retail-based financial institutions are turning to business services to increase bottom-line profitability, while even the largest institutions are “rebooting” their approach to pricing these services. To be successful, financial institutions need more than just treasury products; they need a full-featured commercial account analysis and billing system, savvy sales people and a willingness to change the way business services are priced and sold. Sophisticated analysis tools have made it possible for institutions of all sizes to compete in the treasury management services marketplace.

During the sales process, monthly billing statements are often used to compare pricing from one financial institution to another. An institution attempting to win new business will often build a model or pro forma to compare their pricing to the competition’s, reducing their unit prices as needed to illustrate value provided. This practice has been one reason some financial institutions don’t make billing statements easily available.

The most important component for any financial institution offering business or treasury management services is the account analysis statement, a consolidated representation of all the business activity a financial institution’s customer has engaged in. Most importantly for the financial institution, this statement documents the fees due for the period in question.

The Evolution of the Account Analysis Statement

When doing business with larger corporate entities and mid-sized companies, financial institutions may forgo paper statements altogether and deliver statements electronically. In the U.S., over 800 mid- and large-sized corporations receive account analysis statements from their financial institutions using the American National Standards Institute (ANSI) X12 EDI 822 transaction set. Receiving statements electronically, in conjunction with bank fee analysis software, enables automated accuracy and reasonability checks.

Whether or not they still mail paper statements, financial institutions should make statement images available to business customers through other channels, such as cash management and online banking systems. Customers may not often review billing statements, but granularity and transparency are important when questions do arise. Businesses expect detailed information to be available on demand, and they shouldn’t have to make a phone call or send an email to obtain it.

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Growing Revenue

There are a number of ways to increase bottom-line fee income from this billing process, one being to simply onboard more business customers. The same is true of adding more commercial products, such as funds management/sweeps, or even adding more billing points and services to existing products. It doesn’t take long to realize that fee income will rise when a financial institution starts billing customers for their wire advices, in addition to the wire transfers themselves.

But can bottom-line fee income increase without more accounts, more products and more services? Without raising prices? It certainly can.

Placing a Value on Zero

It is common practice in treasury management to offer concession pricing for services or even to waive charges entirely. Concession pricing can make the difference in winning new business. But too often, after onboarding,
everyone loses track of what this free service really means, because the billing statement shows the service price and charge as zero or does not show the line item at all. Now what value has been provided to the customer, and at what cost?

Instead of setting the price to zero, which results in a zero charge, it is more meaningful to leave the standard price as-is, so the amount of the waived service can be seen by the customer. When a business customer is aware of this savings, the tendency will be to purchase additional services. Perceived value can play a significant role in creating customer satisfaction and modifying behavior.

By waiving fees using standard price values, a financial institution can track such waivers as a percentage of all service fee income. By monitoring the value of waived services, and where they originate, an institution can address the issue at its source. But if this revenue loss isn’t measured, it can’t be managed. Figure 1 represents a hypothetical distribution of treasury management fee income across an institution for a single month. In this sample, waived services are shown as 14 percent of all services used. Tracking the trend of services waived over time will illustrate sales behavior.

**Figure 1**

*Treasury Management Services Revenue Summary*

- Waived Services: 14%
- All Other Non-Interest Fee Income: 6%
- Hard Charge/Explicit Services: 6%
- Balance Based Fee Income (example: Deposit Insurance Coverage): 68%

**Negotiating with the 100% Club**

To win new business, sometimes the parameters for new accounts will be set to waive all fees. Without an expiration or renewal date, these account-level waivers can, over time, be the most costly of all. Like price concessions, an account-level waiver is typically set and then forgotten, but if a renewal date is assigned, the customer can be approached later for renegotiation. It’s hard to argue with a salesperson who says, “I know we’ve been waiving 100 percent of your fees for the last year, but going forward, we can waive only 90 percent of your fees.” A sliding scale will steadily reduce account waivers over time. To reduce fees on a sliding scale requires an analysis system that supports percentage discounts. Any reduction in discounted fees flows directly to bottom-line revenue.

The discount approach to pricing is a new strategy for some financial institutions. When discounting fees by a percentage, institutions must consider where the discount actually applies on the customer statement—before credit or after earnings credit—since the earnings credit rate is used to calculate an earnings allowance to offset service fees.

The benefit to before-earnings credits is that every account with fees will have the discount shown. However, before-earnings discounts can be costly, because the credit is applied to everyone, whether deficit or not in the current period. When an after-earnings credit is applied, the financial institution saves more, because only accounts with fees due see the discount credit. Either way, the “100% Club” should have a very small membership, where renewal is almost impossible to attain.

**Minimum Fee Arrangements Across Multiple Services**

The more pricing options a financial institution can provide, the more empowered the sales team becomes. Taking the idea of minimum fee arrangements beyond a single service, consider the concept applied across multiple services. It’s one thing to sell a client ACH Origination with $10 ACH Files, 10-cent ACH Credits and 10-cent ACH Debits, but a different matter to add the following stipulation:

“The sum total fees for these three services must reach $75 per month or the system will generate a Minimum Fee Adjustment to ensure the $75 each month.”
Uncollected Funds Fee as hard charged, so it cannot be offset with an earnings allowance. Fee-based service fees drive revenue right to the bottom line.

The Real Cost of Discounting

Concession pricing is often established without an expiration date and, for some financial institutions, seemingly lasts forever. Like waived service fees, unless that lost revenue is measured, its value cannot be known. Done properly, the billing engine computes charges for any account with concession-priced services once at the standard rates and prices and again using actual rates and prices. The difference in these two computations is revenue loss. If concession pricing never expires, the revenue loss needle only moves higher. But if concession pricing expires, so does the revenue loss. Consider this example from a $2-billion bank that suspected its Revenue Loss Detail Report was incorrect, because it showed a total revenue loss of more than $67,000 for a single month. Analyzing the data by account didn’t seem to be cause for alarm, but review of the accumulated revenue loss confirmed the totals were real.

Reviewing this value metric over time is a key indicator of how policies and procedures are affecting revenue loss within the institution. Figure 2 below illustrates revenue loss by sales officer for the first quarter as well as the total revenue loss trend over time. In this hypothetical example, concession pricing (and its expiration) has a direct effect on revenue loss. Measuring and tracking revenue loss over time identifies changes in the behavior of sales people and processes.

Hard-Charging for Specific Service Line Items

While service line item fees are traditionally offset by balances (balance-compensable), advanced account analysis allows any single billing point to be tagged as non-compensable—a hard charge, sometimes referred to as an explicit charge or fee-based service, because they can be paid for only by fees. Too often, financial institutions do not take advantage of hard charges, but instead offset all service charges with an earnings allowance.

Certain line item charges should always be fee-based, including the Uncollected Funds Service Charge. Properly shown, an Uncollected Funds Fee is a line item service charge in the service detail section of an account analysis statement. If an account is allowed an earnings credit for average positive balances, then an Uncollected Funds Fee would be fair for average negative collected balances. The problem is that few financial institutions mark the Uncollected Funds Fee as hard charged, so it cannot be offset with an earnings allowance. Fee-based service fees drive revenue right to the bottom line.

Financial institutions should consider Minimum Fee Arrangements even at the product family level, spanning numerous billing points. The number of billing points, and the unit price for each billing point in a product family, become less important when a minimum fee arrangement is in place. Such arrangements can have only a small impact on individual clients, but a substantial impact on bottom-line margin.

In that scenario, it’s all standard pricing, but the financial institution now holds the client accountable for an agreed-upon fee for “combined” services.

Account Values for Q1 Roll Up to Officers

Revenue Loss By Officer

Revenue Loss Trend

Revenue Loss for Bank Over Time
Expiration dates for account exceptions can benefit both the business customer and the financial institution, because they open the door to renegotiation. For example, in a changing market, service pricing implemented two years ago may no longer make sense. Instead, expiring exceptions should be viewed as renewing, and with renewal comes another negotiation. Automated expire dates prompt renewal instructions and thus create these recurring opportunities.

**Account Analysis Identifies Ways to Stem Loss and Generate Revenue**

A financial institution's account analysis system is more than just a billing engine. Account analysis can also be a radar screen for spotting revenue loss, help identify product white space, be a store of valuable metrics and a billing engine for revenue generation. Financial institutions committed to business services need to be proactive with account analysis. The alternative is to watch non-interest fee income simply fade away.

**About the Author**
Bill Andrules is the director of Weiland Bank Solutions and responsible for the Weiland Account Analysis™ team at Fiserv. He has spent 20 years in the design, development, marketing and support of Account Analysis Services. He is a recognized expert on all aspects of treasury service fee income and demand deposit account analysis.

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