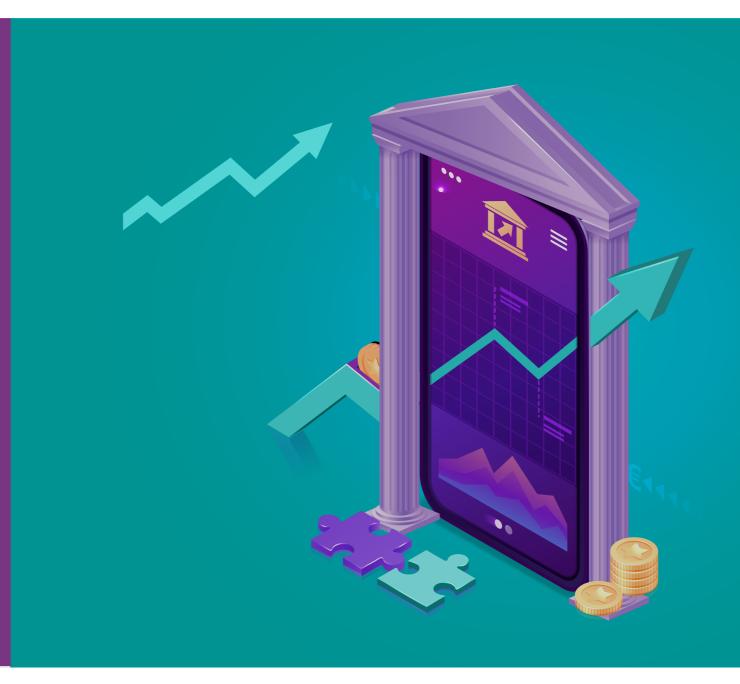
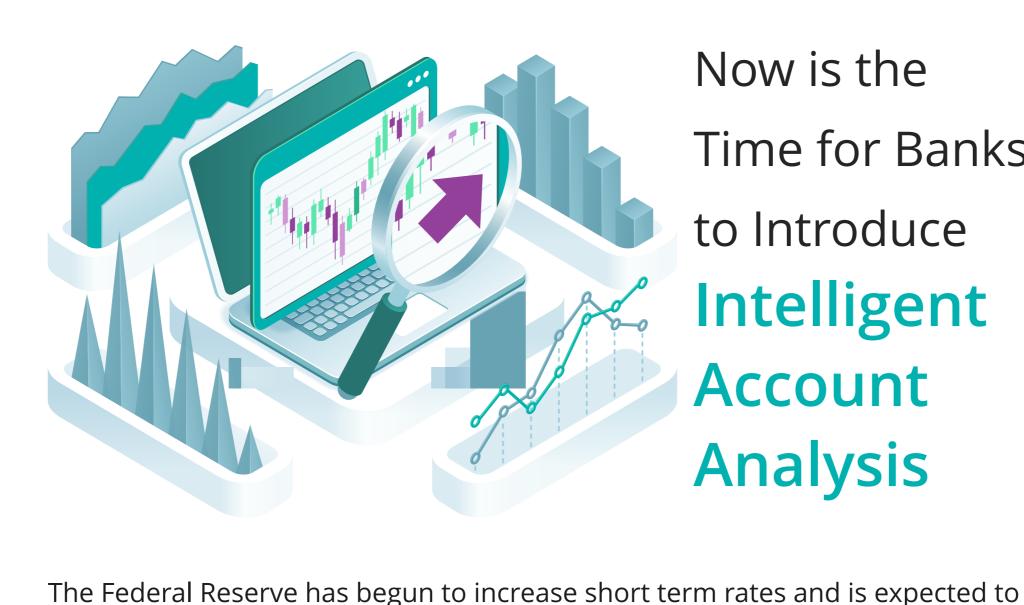
## **Increasing Rates Brings Account Analysis to** the Forefront, Again

By Dan Gill, Vice President - Client Facing Group,

SunTec Business Solutions





## Now is the Time for Banks to Introduce Intelligent Account **Analysis**

continue to push them up faster than ever before in an effort to push back inflation. This will have a cascading effect across other short-term rates including earnings credit in account analysis. Savvy banks now have even more options to use account analysis to provide value to their corporate customers. With rates sitting near zero for most of the past decade, the traditional account analysis statement has been little more than a bill for services. As rates climb, let's revisit account analysis and some of the opportunities it affords in the corporate banking market.

## Account **Analysis** Come From? **Account Analysis in**

Where Did

the US has its roots in the Great Depression. Among the many government responses to the crisis was the passage of the Glass-Steagall act. One component of Glass-Steagall was the prohibition of paying interest on corporate demand-deposit accounts (DDA).



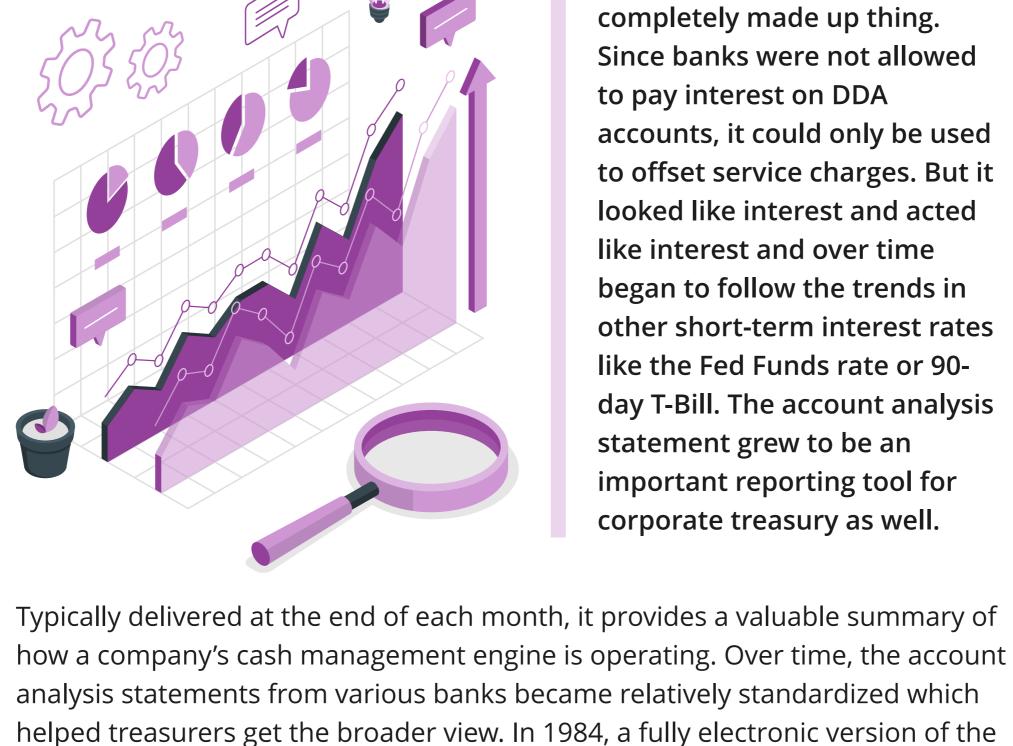
Corporations continued to maintain large amounts of their liquidity in these DDAs even though those balances didn't offer any yield. Banks offered a variety of basic services to corporations at no charge simply because their large (no-interest) balances provided sufficient value to the bank. As the 20th century marched forward and the sophistication of corporate cash management and banking systems increased, banks began to offer innovative new "services" to their corporate clients. These services often required significant investment in technology and operational expenses for banks. And in the 1960s, banks began to charge their corporate client's transaction-related charges.

that offered no yield, they now found themselves being charged fees for check clearing and balance reporting. As technology improved and new services like lockboxes, wire transfers, reporting, controlled disbursements, ACH, and antifraud services emerged, banks now had a significant catalog of services that they could offer their corporate customers. This began a subtle but significant transformation of the banking world from the business of buying and selling money to provider of financial services. While corporate treasury groups were happy to have these new

maintained millions in balances

products that increased the speed of cash management, the value of their deposits continued to be diluted. Banks then offered their corporate customers the option of paying for the services used either with a monthly fee, or by maintaining a sufficient average daily balance to offset their fees. This was made possible through a pretend interest on balances known as Earnings Credit Rate (ECR). Each month, the bank would aggregate the volumes of each service used on a corporate account and generate a charge. The average daily balances for the account would be calculated and a pretend interest, the ECR, would be applied. The account would then be "analyzed" to determine if the balances were sufficient to offset all the fees. And thus, Account Analysis was born! Growth of Account Analysis

## **Earnings Credit was a** completely made up thing. Since banks were not allowed



accounts, it could only be used to offset service charges. But it looked like interest and acted like interest and over time began to follow the trends in other short-term interest rates like the Fed Funds rate or 90day T-Bill. The account analysis statement grew to be an important reporting tool for corporate treasury as well.

to pay interest on DDA

Analysis remained a staple part of corporate cash management all the way up until the financial crisis that started in 2008. The reserve reduction was a part of the traditional account analysis calculation whereby the balances that received earnings credit were reduced by the amount that the bank was required to hold in reserves. Typically, this meant that earnings credit received an automatic 10%

cut reducing the value of earnings credit as compared to other yield

One of the core functions of corporate treasury is to maximize the yield on the

cash assets of the company. Earnings credit was a way to get some value out of

account and can only be used to offset service charges. In classic account

opportunities. That all changed after the 2008 financial crisis.

account analysis statement known as the EDI 822 was released. Account

balances that could not be deployed for better returns. As an earnings mechanism, it was handicapped from its inception. While earnings credit looks like interest, it is available on only part of the average daily balance of the

Reserve Reduction

analysis, the ledger balance was reduced by the amount of float, and something called the reserve requirement and increased by the number of covered overdrafts to arrive at a net investable funds (NIF) in the account. The NIF balance is where the ECR was applied. Chasing Yield 2008 Financial Crisis Just like the Great Depression led to the creation of Account Analysis, the 2008 financial crisis led to a situation that promised to turn it upside down.

history books. Almost simultaneously, the Fed Funds rate dropped to near zero making both ECR and hard interest less interesting. The Fed began paying banks

interest on their reserve

balances and eventually

dropped the reserve

requirement to zero.

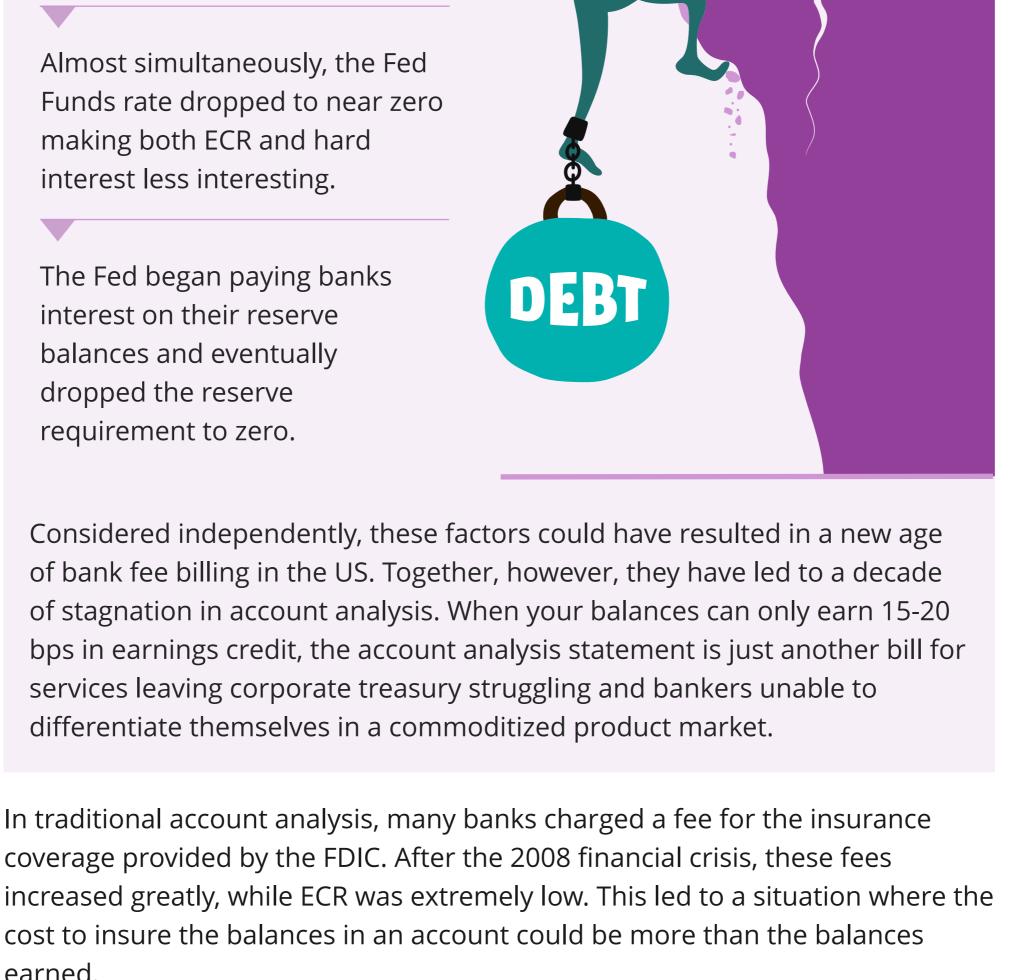
Dodd-Frank repealed the

might be destined for the

prohibition on hard interest on

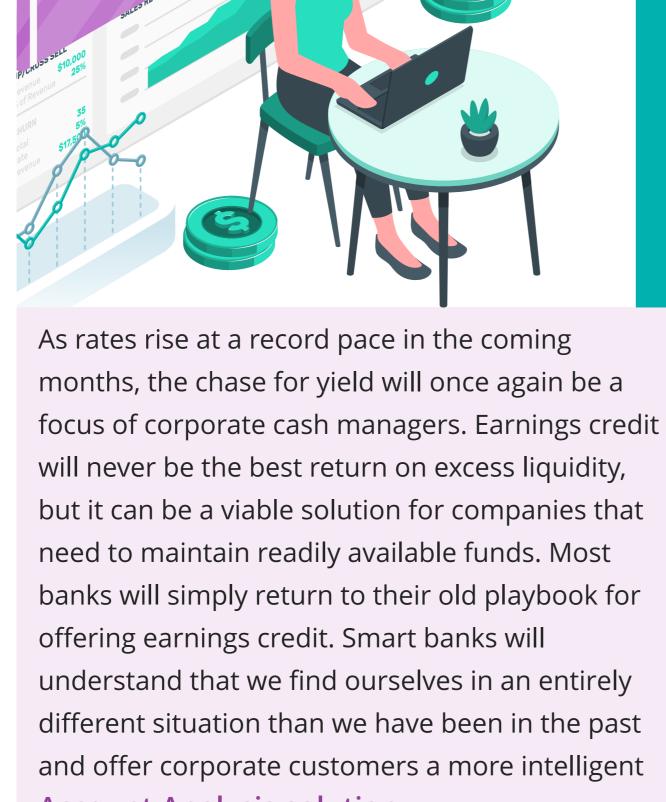
demand deposit accounts, and

it seemed that earnings credit



The FDIC Fee Time for

earned.



different situation than we have been in the past and offer corporate customers a more intelligent **Account Analysis solution.** 

Get visibility into

the totality of the

relationship with

company's

your bank

Develop earnings and interest offerings that are a custom fit to each company Earnings Credit Only - Hard Interest Only - Hybrid

Intelligent

Account

Analysis

Eliminate unnecessary reductions of earnings credit from reserve reductions and maybe even float

Take a customer-

centric view

view

rather than a

product-centric

Offer ECR and/ or Interest that are pegged to a standard rate

Bring transparency to the fees and value that your corporate customers are receiving

Implement strategic Deal Management processes and systems to shine on RFPs and negotiations that allow you to win

through intelligent statements, analytics, and open banking Get your product catalog, pricing, and Account Analysis out of the

core without waiting to replace the



Note: Data after December 2008 show the midpoint of the target range

Source: Federal Reserve via St. Louis Fred

While Account Analysis has been around for a long time, we have a significant new opportunity to apply modern technology to

implement a much

our corporate

customers.

broader solution for