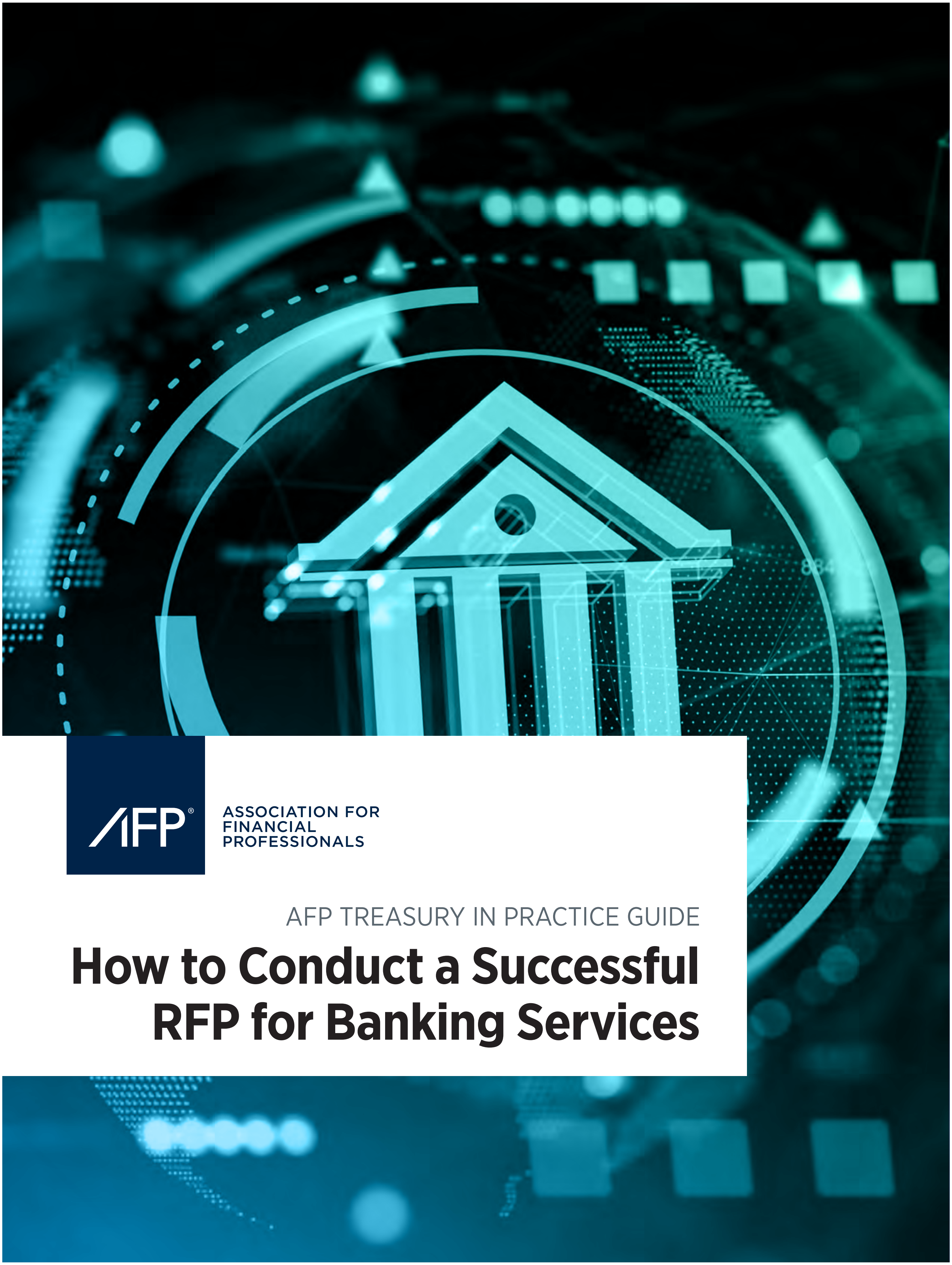

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AFP TREASURY IN PRACTICE GUIDE

How to Conduct a Successful RFP for Banking Services

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INTRODUCTION

Seismic changes in banking technologies, most recently the mainstreaming of artificial intelligence, as well as the aftermath of the collapse of Silicon Valley Bank (SVB) in March 2023, triggered an uptick in the number of companies looking to validate existing banking services and pricing and seeking out new vendors. In the initial flight to safety, “many companies moved quickly to another bank, basing decisions on reputation and not worrying about cost or the high-touch quality of service that can be found in a regional bank,” said Bridget Meyer, Senior Director at Redbridge Debt and Treasury Advisory. “They are now re-evaluating their choices.”

Concern about the soundness of the banking system may dissipate, but there are many other reasons companies may decide to bid out their banking services, and better pricing is not necessarily the most important one. Some organizations must conduct mandatory RFPs on a periodic basis. In other cases, a company may lose a revolver bank, which had also handled its cash management needs, and thus need a replacement. Still, others are looking for a new structure and partner to accommodate changing operational needs.

“An RFP can take, overall, four to six months, depending on complexity,” said Chris van Dijl at Cugavadi, a treasury consultancy. Van Dijl recently helped with a corporate RFP for a global bank that included 25 countries. Part of the reason for the delays was that the banks struggled to collect the information they needed to respond fully and in a speedy manner.

“You’d be surprised how fragmented banks are internally,” van Dijl said. “If it’s a U.S., domestic bank RFP, then you have the AFP payment codes, and it’s, of course, a lot more straightforward.”

THE RFP ROI

Thus, the decision to move forward with an RFP must not be taken lightly. There are other ways to secure information that can drive a decision to switch banks that are not labyrinthine.

Mark Webster, Partner at Treasury Alliance Group, cautioned corporate treasuries to find out whether an RFP is absolutely necessary. "Ask yourself, 'Why are we doing the RFP?' You may find that you don't need to do a full-on formal process to get the answers you need," he said.

"Sometimes, all that's required is an honest discussion with the incumbent banks," Meyer said. "If you work for a government, an RFP is always necessary. If you don't, and you want to keep the vendors you currently have because they are giving you good customer service, are safe, and do the job well for a reasonable price, treat them with the respect they deserve and don't RFP just to chase a cheaper widget. You want a long-term relationship and so look at it this way."

Another approach is leveraging the relationship treasury already has with its banks to collect new information. "I would urge treasury to use banks as partners in the process, particularly if they are looking for a service that they don't know a lot about," said Ernie Smith, SVP, Director of Treasury Solutions at Veritex Community Bank, "That's when a shorter and less formal Request for Information (RFI) can be helpful."

Of course, there's the option of hiring a consultant. Meyer explained that consultants can be helpful because they understand all the bank fee data, and they have the expertise and tools to model results and the benefit of knowing which providers are performing the best in today's environment.

Typically, treasuries only do banking services RFPs every five to seven years. "Treasurers don't have time to do what they already have on their plate," Meyer said. "This is a massive project. If you want to do it yourself and do it well, it can take as long as a year.

"I have seen drastic differences in models based on one incorrect interpretation of a service line item in a pricing schedule. Consultants can deal with the data so you and your team can focus on making the best decisions."

Some treasuries are fortunate to be able to dedicate a full-time resource to the RFP. When Masco Corporation conducted its RFP on merchant services, it assigned the project to a documentation specialist in treasury and "borrowed" a full-time equivalent (FTE) from Supply Chain. The focused approach helped shorten the process, but the benefits went beyond that.

"If you can bring to the table someone with negotiation skills, you can extract a lot of value," said Marcel Santiz, Director of Treasury at Masco.

Finally, companies can follow a highly structured approach to make the decision to release an RFP: They can run a return-on-investment (ROI) analysis. Just like any other treasury special project, the RFP should be anchored in a strong business case, according to Glisson F. Inguito, Director of Treasury at Konica Minolta Business Solutions U.S.A.

The return can include potential savings on fees, but just as important, "soft dollars" in the form of freeing analysts to focus on higher-value activities. The soft dollars are generated by a bank's technological capabilities and the quality of the data it provides. A highly automated solution means staff can avoid tasks like re-entering data.

In today's treasury, "staff need to be more analytical and understand patterns, which feed into cash forecasting. They need to be able to use the bank's information to drive decisions," Inguito said.

Talking to the banks ahead of the launch of the official RFP process has another important benefit. It allows the banks to gain insight into the company's specific needs and priorities, which means they will be able to respond to the request in a more thoughtful manner. Therefore, have a conversation with each of them pre-bid — whether you're a current customer or a potential customer — realizing that some of them may not be interested in your business. Ultimately, the banks should get ample warning that the RFP is coming their way.

"We had a lot of conversations with our banks in the recent past, so the RFP didn't come out of left field," Santiz said.

ASK THE RIGHT QUESTIONS

By the time the decision to launch an RFP is made, companies should have a sense of the questions they need to ask. The most critical first step is to set clear objectives and craft the questions around them.

"Know what you want and define your scope," said Keith Callahan, Assistant Deputy, Office of the Treasury for Arlington County in Virginia. "The consultant we worked with helped us provide the banks with relevant services and volumes via reviewing one to two years of account analysis statements. We held in-person, internal scoping — both needs and wants — discussions with 15-20 internal County agencies reviewing the current practices, and we knew what was most important to us."

To avoid unnecessary confusion among the banks as well as in the bid-review phase, treasury must be crystal clear about its objectives. "Knowing what you want and what you're looking for is the most critical element of the pre-RFP process," Meyer said. "Invest more time upfront so you can confidently ask the right questions and paint the most accurate picture of your ideal end-state. This will ensure better, more informative responses and yield better decisions."

Often, treasury starts with a template or an older RFP. However, sending an outdated or generic RFP is a huge mistake. "The problem with templates is that they are only a good starting point," Webster said. "Don't take an AFP or bank template and just use it because the questions will not match your specific needs."

"Targeted questions are very important," Santiz said. "You must know exactly what you need. If it's just a generic RFP, what you get back may not serve your purpose."

Absent a clear direction, treasury may ask too many questions; that approach can backfire, as some banks will look at the laundry list of questions and decide not to bid. On the treasury side, reviewing the answers will be even more time-consuming and complicated.

"The key is to ask questions about what really matters," Webster said. "You want to address the issues that would allow you to make the decision between vendor A and vendor B." He also recommended asking a few open-ended questions to allow the bank to discuss its unique products and services.

At Konica Minolta, Inguito has a rule: "We ask up to 50 questions. Of course, there are some general questions upfront about the bank's background, soundness, etc., But when it comes to services, we limit it to 50."

Granted, that is not an easy task. "There may be a hundred questions you want to ask, so you'll need to prioritize," Inguito said. "Remember your objectives and focus on the most important ones."

Having clear objectives also helps in making the final decision. "You can more easily tell which areas the banks are strong at by the areas that receive more insightful answers," he said.

"Asking irrelevant questions not tied to the RFP's objectives dilutes its underlying objective," said Arup Sinha, Head of Structured Solutions (Cash) at Standard Chartered Bank.

Sending a long list of irrelevant questions not only strains the bank's resources, causing delays and the need to ask for multiple clarifications, but "it also becomes a nightmare for the RFP issuer to assess the bank's responses," he said. "Differentiation should be around what's important to you that you're trying to achieve through the RFP."

In addition, efforts should be made to structure the flow of RFP questions in a logical way. "Ultimately, the responses should be a story about the bank's capabilities and how it would help to meet the organization's current and future needs," he said.

Companies should also ask questions beyond the bank's service capabilities and pricing. "It's a mistake to not ask the banks about upcoming and future solutions," he said. "Ask questions about innovation in the market and how they see the market evolving. That's a very important insight into how the bank is aligning with the future of treasury."

The questions should also cover the post-selection phase. "Ask about the length of the implementation. How many IT resources will be required? How much time will it take?" Inguito said. Treasury will need to tell internal IT departments how much they would need to get involved and find out whether that's feasible.

"We are all fighting for resources and treasury more than others because we are not an actual profit center like marketing and sales," he said.

While it's crucial to ask questions that provide treasury with information regarding services available to accommodate its current needs, "they should also communicate the company's longer-term strategic goals and objectives," Meyer said. This gives bidders more insight and raises the bar on responses.

Padraig Brosnan, founder and CEO of Treasury Delta, an Irish fintech company that offers an online RFP solution in transaction banking, said, "Corporates must be super transparent about their current needs/problems and share their requirements going forward; having more informed vendors will ultimately lead to an improved evaluation and selection phase."

"Share your year-three or year-five expectations while being candid about what services you will need and when," Meyer said. "They may not get the business in year one or two, but they can expect a new need in three to five years."

Webster likens the relationship between the client and the bank to a marriage. Companies are beginning a long-term relationship and should think about an extended timeframe.

When Arlington County composed its RFP, "we included information about what we are currently doing, but also what we want to do," Callahan said. "What services we will need going forward?"

Finally, treasury must decide upfront how to score each question so the team can compare responses and align them with its key objectives. "Have a standard for scoring," van Dijl said. "Treasury must also make a decision on how to weigh each question, based on what's truly important."

NARROW THE FIELD

While treasury considers its objectives and develops its questions, it must also determine how many and which banks to include. “In many cases, the process of selecting the RFP’s recipients evolves out of everyday conversations with banks who pitch their services on an ongoing basis,” van Dijl said. “Treasurers frequently know who to invite because they have already spoken with the banks. After all, they are knocking on your door all the time.”

Exactly how many banks to work with “depends on who’s going to market,” Callahan said. “The number and type of banks will depend on the size of the business going out for the RFP.” Arlington County’s most recent RFP for banking services included eight banks.

Santiz said, “One of the biggest challenges we experienced in the pre-RFP phase was just figuring out who the players were and who was the right contact person at each.”

Masco conducted a merchant card services RFP in 2022. “Our volumes dropped significantly due to divestitures, and the current agreement was ending, so we decided to take a fresh new look at what we can get,” he said. To identify the major players in the market, treasury did online and other research as well as posted questions on the AFP messaging board.

At Konica Minolta, “we approach the RFP by looking at the banks’ capabilities first, whether via an RFI or having conversations with the banks or peers,” Inguito said. “We may ask to see a demo right off the bat, even before the bidding process.

“This can weed out the ones we won’t be going to. You can also ask them to do a 1 or 1.5-hour virtual presentation. That is not too much of an ask and can save a lot of time by collecting basic information and narrowing down the list. We do that before we even go to our CFO.”

Of course, treasury must consider how it distributes its business to the banks in the credit facility. Share-of-wallet is always an important consideration. However, “inviting everyone in the revolver to bid on the RFP is a common trap,” Meyer said. “While it is best practice to work with banks that are already in the credit facility, only those who have a realistic chance of winning should be invited to bid.”

THE VALUE OF TRANSPARENCY

In addition, treasury must make sure the banks are aware of the timeline, so they can get their responses ready and understand when they will hear back from the company.

"It's very easy to say, 'I need it back by a certain time,' but there's no accountability unless you say when you anticipate getting back to them," Meyer said. "Be fair in the timelines you set for participants and transparent in when your company will commit to making a decision."

She added, "There is nothing worse than a bank bending over backwards to meet the RFP deadline and then waiting for months, if not years, for a company to make a decision."

The deadline must be realistic. "Give yourself enough time to make the decision," Webster said.

Inguito stressed that treasury should keep the lines of communication open throughout the RFP process. "Tell the banks they need to be proactive and ask questions. We also go over the RFP to make sure they understand it," he said.

Communicating internally is equally important. To get the best results, all relevant stakeholders must be included in internal conversations at the outset and during the evaluation phase. This list may include IT, AR, AP and accounting. It should also include everyone who will be using the services. "End users must be involved," Inguito said.

For Konica Minolta, this meant working with the entire treasury team, from analysts all the way to the top. After all, analysts and managers will be the ones who ultimately get to interact with the bank and use the services. "They are, therefore, a valuable source of good and practical questions," Inguito said.

"As you gear up to roll the RFP, be sure to reach out to your local and field offices, get their requirements and wish lists," Sinha said. "Incorporate their relevant asks into the RFP questionnaire.

"Once the proposals are in, the solutions offered and presented will need to be validated and understood by all stakeholders and users before being truly considered. That's especially important when conducting a global RFP."

Webster also recommended that companies appoint a single contact for the banks. "They will have questions as they complete the RFP," he said. "You want all of them to call one person. This allows for consistent uniform answers and minimizes confusion."

He advised practitioners to set up a special email box for all RFP communications to help manage incoming messages and ensure they are centralized and reviewed.

MAKING THE CUT

The selection of the finalists — usually two or three banks — should include factors beyond pricing, such as soft skills. Some of that can be gleaned through pre-proposal interaction. However, the final presentation is one of the most useful sources of insight.

"Their presentation shows you how hungry they are, whether they sent their senior top team, and are they excited about it?" van Dijl said. "Often, you may find that your incumbent banks may put in a lackluster presentation because they think they've already won the business."

Webster recalled a case in which three banks were selected as finalists. "On paper, Bank A was hands down the best," he said. "When they came in for the onsite presentation, they blew it completely. It was a canned presentation, and they talked mostly about how great they are.

"At the end of the meeting, the first thing the treasurer said to me was, 'You can eliminate them from the list right now.'"

Smith from Veritex Bank said, "You want a long-term partner in your success. Sometimes, the cheapest solution is not the best because the bank doesn't fully understand or can't service all your needs. That's why it's essential to look at quality as well as price."

Thus, ultimately, companies will select a bank that they want to work with. Relationships can change overnight because an incumbent is blasé about it. They show up with one or two people. Meanwhile, there's another bank that shows commitment to the process, is excited about the business and brings fresh ideas. Make sure that the amount of effort and attitude of the bank is noticed. It should have a significant impact on your final decision.

Finalists must also demonstrate their customer service capabilities and bring their support people to the final meeting. One aspect of customer service is whether it will be provided by a single rep or via a help-desk model. Most banks are moving to a team approach as products become more complex.

When Masco concluded its RFP, it chose to stay with the incumbent, largely because the existing bank offered a dedicated support resource. "While another provider was slightly cheaper, they did not offer a dedicated customer service rep," Santiz said. For this highly complex company, single-point support was critical.

"We are a conglomerate with businesses that operate with a lot of autonomy," he said. "We also have multiple accounts

with different volumes and different cards. The miniscule price difference was not significant enough to make the switch."

"When it gets down to the final two or three banks, go outside of the formal RFP and talk to your treasury peers," van Dijl said. "Word of mouth is best, and the bank might include some corporate testimonials. Reach out to your fellow treasurers and get referrals."

At Konica Minolta, another consideration factor was the bank's commitment to diversity, equity and inclusion (DEI). "We look at possible vendors from the perspective of their inclusion policies. Are they minority owned? Are they lending to the community?" Inguito said. "We have expectations that the banks we deal with are socially responsible because that's also a reflection on us."

While DEI may not be a common decision-making factor, it's increasingly an aspect that companies consider when selecting the winner.

TECHNOLOGY FIT

"Banking today is a technology business," said Callahan from Arlington County, "especially with the evolution of AI and sophistication of fraudsters." Companies should, therefore, ask specific questions about each bank's plans for rolling out new technological capabilities.

The best indicator of the banks' commitment to technological innovation is their online portal and app capabilities. Doing a live demo is critical. "Make sure they are not just telling you about the capabilities but showing you the capabilities," Inguito said. "Their portal will be the primary interface because, on a day-to-day basis, many of the functionalities rely on self-service."

The demo is an opportunity to check the bank's portal response speed as well as count the number of clicks required to get from one screen to another. "Their portal's capabilities reflect their understanding of corporate treasury needs. It also reflects their level of investment in and understanding of treasury services," he said.

A related and essential consideration is the bank systems' integration with SAP or another ERP, as well as in-house or third-party vendors, such as fintech that provide sophisticated AI capabilities.

Konica Minolta relies on fintechs with significant and proven uses of AI, or machine learning at the very least, to collect all the banks' information and run sophisticated analyses to identify patterns and provide insights that can drive decisions. While AI may not be a core offering right now, banks that can show investment in AI have an advantage.

"The question should be, 'Can you use this bank's information to drive action?'" Inguito said. That includes the amount of data the bank provides as well as the number of analytical reports.

ONLINE RFPs?

The administrative burden of conducting an RFP is a significant contributor to its difficulty and speed. Currently, Excel and emails are the primary communication tools. However, there are signs that RFPs are moving in the same direction as other finance process automation — to an online browser interface format.

Online RFPs are a nascent market in which vendors digitize the RFP process for commercial banking services and treasury management systems. For example, Treasury Delta's solution has certain characteristics of an Airbnb-type platform, but they connect buyers and sellers in the corporate treasury environment.

"By digitizing the writing, sending, collecting and scoring process, the RFP can go a lot more smoothly for the corporate and the bank," van Dijl said. "It creates standardization across the bidders, and it allows you to automatically add up and compare bank scores. You can avoid cumbersome spreadsheets and back-and-forth emails."

At Treasury Delta, the digital platform works much like an online bank portal and provides functionality to support the entire RFP lifecycle. The idea was born out of similar platforms for procurement departments and adapted for banking services and treasury management systems. The system assigns a master user at the banks and the company, who in turn can divvy up the team and give permission to specific people to access specific parts of the RFP.

The platform enables the company to maintain a single source of truth, thus avoiding version confusion and facilitating collaboration. It includes features that support project-management governance by setting up timelines and touchpoints. It also acts as an audit trail and question repository to help with the next RFP or share feedback with banks that did not win the business.

"As financial terminology differs from bank to bank and from country to country, it's hard for treasury to present data and criteria in a precise and digital way, and it only gets harder the more countries with varying market standards are included," said Ole Wulff, Founder of CXFacts, a company that offers an online solution to automate the process of assessing bank service performance.

"If you use an Excel or Word document or standard online forms, you have to start from scratch every time you do an RFP. With an online RFP platform, you may benefit not only from your own previous work but also from shared knowledge on market standards, questions and more. Participants on the platform may benefit from the shared work and experience of others."

The concept is still in its infancy and is facing resistance from consultants and banks, partly because they are accustomed to doing things in Excel. In addition, "sometimes banks worry about putting their indicative pricing online," Brosnan said. However, each RFP is private, and treasury needs that indicative price for the services it is bidding out.

Meyer at Redbridge has worked with a constant stream of corporate RFPs and has been looking to simplify the process. Yet when she surveyed banks about how to improve the process, "nine out of 10 said they prefer Excel," she said. That may be in large part because many banks have yet to experience any other option.

Some opponents argue that the online tool creates more work, in part because it involves more burdensome security requirements and passwords that often require involvement from the IT department. Plus, some companies and banks are hesitant about releasing information via a portal.

"They prefer a spreadsheet with multiple tabs," Meyer said, "so they can assign tabs to different people internally and add additional rows easily. Use the tool you know," she said. She also expressed concerns about the software's flexibility.

Brosnan admits Treasury Delta's platform is a work in progress. "Version 1 is live and we're going to add more bells and whistles," Brosnan said. "Our plan is to invest heavily in the technology."

He also recognized the fact that he's facing an uphill battle to get the market to accept a new way of doing things. "It's going to be a long sale because the market is very conservative and prefers the status quo, whereas the new technology seeks to completely disrupt it," he said.

He likened the company's current phase to the early stages of FXall and 360T. "Corporates will have to lean on their banks to make the switch," he said.

Online or offline, RFPs are complex and time-consuming. Therefore, they present a tall challenge for often leanly staffed treasury teams. "Whether you are a bank or a practitioner, RFPs are typically very intense," said Sinha from Standard Chartered.

Doing the right homework in advance, asking only relevant questions, establishing an efficient process for sending the RFPs out, and collecting and evaluating responses will help overcome the many challenges of conducting the RFP.

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