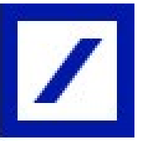
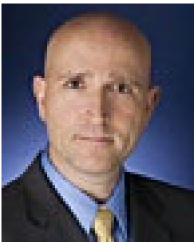


TreasuryPulse

In-House Banking: The Right Solution for Your Corporation?



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More corporate treasury departments today are focusing on the question of whether to set up an in-house bank as a way to increase efficiency, reduce costs, enhance working capital management, increase control and risk management, and improve visibility and reporting.

Services that are typically provided by commercial banks can be provided by an in-house bank, including risk management, payments and collections, loans, foreign exchange and funding. An in-house bank replaces a subsidiary's commercial bank and provides the parent company increased visibility, control and security, while reduce operating expense.

Furthermore, an in-house bank can eliminate a high volume of intercompany transactions that currently are processed by subsidiaries' banks. For example, when a subsidiary needs to pay another subsidiary of the company, or needs to be paid, typically at least two banks are involved and the transaction may take a day or so to clear. With an in-house bank, conversely, payments become simply a matter of entries on the company's general ledger.

Complex Structure to Set Up

But, given the extensive legal, regulatory, tax and information technology (IT) systems considerations an in-house bank requires, it's not for every company. In fact, an in-house bank is one of the most complex structures a treasury department can set up, so it takes careful consideration before taking the plunge.

Some potential drawbacks include greater concentration of financial transactions, which can mean that mistakes are magnified, and there are greater risk management implications when things go wrong. Additionally, it takes careful analysis to work out whether an in-house bank is the right structure in some countries with complicated legal and tax restrictions.

Therefore, rather than leaping into setting up an in-house bank, companies should consider the structure as the ultimate on a continuum of improvements that can be made in systems and processes. Companies should implement these other building blocks first in order to enhance efficiencies and economies of scale.

Moving up the Ladder of Sophistication

First off, a company can put in global treasury policies, rationalize banks and bank accounts, and set up liquidity pools to concentrate cash within legal entities. Next, a company should consider using shared services centers to aggregate its commonly shared repetitive tasks. Two functions that can be housed in a shared services center are accounts payable and accounts receivable.

A key requirement for an in-house bank is the need for a robust IT system that can support booking and reporting a high volume of intercompany transactions/loans. Thus, a company should take a hard look at its existing enterprise resource planning (ERP) and treasury management systems to determine if an IT upgrade is required in order to support an in-house bank.

Each of these steps can be enhanced by an in-house bank, but it is not a requirement for achieving significant benefits from them.

Before Taking the Next Step

If a company believes an in-house bank is the right move, some of the things it needs to consider include:

- What activities will be carried out by the in-house bank?
- Will the in-house bank be a cost or a profit center?
- What legal entity will be used to set up the in-house bank?
- What will the roles and responsibilities be among its users and owners?

Also, given the concentration of financial transactions, a company should go through careful contingency planning: How will you provide back-up for the in-house bank?

While an in-house bank is not a product that commercial banking partners like Deutsche Bank offer, we can, given our extensive experience in working with corporations on these questions, provide advice and guidance through our specialized Trade and Cash Advisory group. We realize treasury departments are always asked to do more with less, and we are ready to help.