

# More benchmark than back stop

THE SERVICE LEVEL AGREEMENT (SLA) IS BECOMING A STANDARD WAY OF FORMALISING AND CODIFYING THE BANKER CUSTOMER RELATIONSHIP. PETER HAZOU EXPLAINS HOW TO MAKE THE SLA WORK FOR YOU.

Few can doubt the importance of the client banker relationship. It needs to be established on a firm footing. Then the relationship needs maintaining and adapting so that, as soon as possible, both parties begin to work as one.

That's the ideal. But where's the accountability? Who's responsible for doing what, and when? And though one party may be clear on the meaning of 'what' and the timing of 'when', the other party may have their own ideas. What happens when there's a problem?

It was in a bid to answer those questions that over a decade ago bankers in the US, adopting a practice in other industries, developed the Service Level Agreement (SLA). The SLA formalises and codifies the banker customer relationship and has become an increasingly standard risk management tool that clearly defines the who, what, where and when for both parties.

**THE SLA PROCESS** The treasurer has every reason to expect that the bank will live up to what they've promised when they were first awarded the mandate. However the SLA – and the process of generating it – will provide assurance that both parties understand what is to be done, and that both have the ways and means to do it.

At its core, the SLA details for the corporate treasurer, as well as other relevant departments, the minimum standard of service that can be expected. Building on initial agreements, SLAs and related documentation delineate agreed-upon detail that can be returned to, checked and reviewed.

Where warranted, the SLA solidifies and codifies the banker treasurer relationship by detailing practical and achievable benchmarks for services. These can include agreeing cut-off times, levels of quality and straight-through rates.

Although they may sometimes have the ring of legalese, it's worth noting from the outset that an SLA is not – or shouldn't be – the basis of last-resort litigation. Yes, they do tend to look and act like a contract, they set out commitments made by both sides, but they

## Executive summary

- The core of the SLA is the detailing of the minimum standard of service expected.
- The SLA helps to manage the risks in the banker customer relationship.
- The performance of the bank has to be measured against Key Performance Indicators (KPIs).
- An SLA governs internal, as well as external processes. When preparing an SLA, a treasurer will be representing many stakeholders on his side.
- The content of an SLA should be precise and detailed so both parties know what to expect.
- As the banker customer relationship evolves over time, so the SLA will have to be reviewed and updated.

are better viewed and employed as a living document, a key benchmark in an evolving and healthy relationship that provides a firm basis for discussion and, perhaps, renegotiation.

**MEASURING UP TO STATED BENCHMARKS** Though they sometimes begin life as an off-the-shelf template, SLAs are radically changed in the development process as they are tailored to the relationship. In the end, they evolve into core documents, worked out in close partnership, as each party examines the tasks required, the performance levels to be achieved, the risks to be managed and the necessary resources available to each.

The degree of real-life tailoring can be best understood from an example. Set out below is an excerpt from a product specification for liquidity products, detailing specifics on the bank's in-house cash concentration efforts for a given customer: what the service is, what it will do, and how and when it will be done:

*"This service enables the customer to move any surplus funds available on a subsidiary's account (above a pre-agreed amount) by*

automatic transfer to the master account at a pre-agreed time where both accounts are held within a bank's branch. Likewise if the subsidiary's account is short of funds (compared to the pre-agreed amount), the funds will be swept from the Master account to the subsidiary's account to cover the position.

"The sweep will take place at a pre-agreed time and will capture any cleared funds that were posted to the subsidiary's account prior to the sweep having taken place."

To assure that all such elements in an SLA are accomplished on time and at the desired level of quality, the bank's performance is measured against key performance indices (KPIs) worked out with the customer.

**STAKEHOLDER RESPONSIBILITY** There are many moving parts in the banker treasurer relationship, and like links in a chain, each has to do its job. For the banker and the treasurer that means understanding the capabilities and limits of the other party's organisation, and their own organisation's capabilities and limits.

When preparing an SLA, a corporate treasurer will be representing as many stakeholders on his side as the bank does. Each speaks for an organisation with departments whose purpose and function may perhaps seem peripheral to the immediate scope of the SLA. But at some stage these departments will have an influence on the overall performance.

As a banker, my responsibility is to have a full and deep understanding of my own organisation, and be ready to come to the same understanding of the customer's. And the treasurer should do the same, looking as closely inside as outside.

This points to the distinction between an internal and an external SLA. The external, that between the customer and the bank, is what we've dealt with up to now. But within each respective organisation there are internal SLAs that apply to those areas providing the discrete services that come together to deliver the continuum of service from the bank to the customer.

So a good exchange of views from both the treasurer's and the banker's perspective would be: "Now that we've agreed to the general terms, I need to understand the internal processes by which you, the other party, are going to comply. I need assurance that, having understood the requirements, you have the requisite resources to meet them. Further: How will compliance be measured? On what criteria will the KPIs be agreed?"

For instance, if the bank promises Straight Through Processing (STP) with a fully automated rate of 90%, it is important that the areas within the bank that meet this requirement can depend in a timely manner upon those areas within the customer's organisation with relevant responsibility. Another example: if the bank commits to process all payments by three o'clock in the afternoon, and the relevant department at the customer leaves at two o'clock, there are commitments that are quite evidently not sustainable.

This is a continuing exercise that demands trust and transparency beyond that evident in the surface terms of any printed document, and points to the importance of each party having the skills necessary to manage the SLA. These are invariably different from those needed to draft it. It has to be revisited as part of a routine relationship review, and in so doing there's a certain skill to managing it.

The issue in the long term is not 'is something above or below the line', but how is the SLA best used? How have the issues changed over time? Have there been personnel or systems changes that will impact the relationship? And how should remedial action be taken in the case of underperformance?

## What an SLA covers

**Service standards and performance** SLAs cover the two core areas: the service standards that the customer should expect from the bank on the one hand, and the performance standards required of the customer in order to ensure that the service standards can be met by the bank. The content of SLAs evolves over time as circumstances change, services and products are added, amended or removed. So reviews of an SLA's content need to be undertaken and necessary updates made.

**Customer service support** This section covers the service standards that can be expected. A single point of contact is usually provided for all account enquiries, information on customer service, client account officers and problem escalation.

The detail is often precise – for example, 'a minimum of 95% of calls will be answered within 15 seconds (i.e. three rings)' and 'faxes, e-mails and SWIFT messages will be actioned within four hours of receipt.'

A schedule for regular reviews is agreed, and provision made for ad hoc, face-to-face, telephone and video conference meetings.

Escalation contacts for relevant areas – accounts, international currency, processing – are provided.

**Bank service standard/customer commitment** The bulk of the SLA's detail balances the bank's specific service, from stationery to standing orders, account maintenance to transaction processing, the customer performance or response necessary for the bank to be able to deliver the service in the stated time and level of quality. The example in *Table 1* is one of the more simple items.

**Enquiry resolution and investigations** Enquiries differ widely, some taking days or even weeks to resolve. To stop a cheque may take two days; to recall an outgoing payment may take ten days to resolve; to trace a cheque – up to four weeks. The timing depends upon many factors, with the inclusion of third parties tending to expand the period necessary for resolution. See *Table 2*.

**Table 1. Automatic Transfers**

Bank's service standard	Customer commitments
<ul style="list-style-type: none"> <li>■ Instructions can be accepted to transfer money automatically between two accounts in the same legal right</li> <li>■ Balances are transferred at the close of business on a daily, weekly or monthly frequency</li> </ul>	<ul style="list-style-type: none"> <li>■ Instructions should be signed in accordance with the bank mandate and include:                             <ul style="list-style-type: none"> <li>• Details of the two accounts;</li> <li>• Minimum/maximum balances to trigger the transfer; and</li> <li>• Whether cleared or ledger balances are involved.</li> </ul> </li> </ul>

**Table 2. Examples of shorter-term enquiries**

Enquiry type	Indicative resolution times
Amend reference details payment out	3 working days
Amend ultimate beneficiary bank details outgoing payment	5 working days
Amend ultimate beneficiary details outgoing payment	5 working days
Confirmation of credit	1 working day
Rejection of incoming payment	3 working days

*Note: The information provided is an indicative guide, and is not meant to represent an HSBC standard.*

## Need to Know

### The treasurer must ask pertinent questions:

- From the general – what service do we need/can the bank provide?
- To the specific – will account entries result from this product or service?
- To the questions so obvious that they often go unasked – will someone in customer service speak my/my subsidiary's language?

The following list, though by no means complete, provides a starting point.

### How the basics will operate

How will the bank's service operate? How will it meet our needs?

How will the service impact my/my subsidiary's accounts?

Are there going to be entries on my/my subsidiary's accounts as the result of the product I have chosen? If yes – how can I recognise them? And can I automate that recognition exercise?

Is the statement line uniform across the board or will I need some changes according to the location of the account?

From a credit-limit perspective, what are implementation issues of this account?

How is the bank treating the accounts (individually/on a group basis)?

### Implementation and legal requirements

What legal agreement do I need to provide to begin the process? And is any such agreement needed for all corporate entities?

From beginning to end, what legal and other document or documents do I/my subsidiary need to provide? To complete?

### Amendments and changes of circumstance

How easily can I make a change to the account structure?

What would need to be done by the bank following my instruction?

What happens if I sell a subsidiary involved in my current account structure?

### Post-implementation customer service and follow up

What is the expected period of hand-over to the customer support team?

To whom should enquiries be directed? What type/types of enquiry can they respond to?

What does Customer Service need to know before the investigation and the resolution can begin? What is the timeframe to resolve the problem?

Can my subsidiary contact Customer Service directly – or do I have to?

Will they understand the query? Do they speak the language?

Up to now, SLAs have been more common in the US, but they are being increasingly used here in Europe, as a way of formalising a relationship grown more complicated as business goes global.

SLAs and similar documents serve a worthwhile purpose, but in the end they're more benchmark than backstop. If it reaches the stage where there is argument over non-performance and a sheaf of papers is being bandied about, then there are bigger problems. At

that point, it's time to re-examine processes and refocus on the relationship itself.

Peter Hazou is Regional Head, Europe, Global Payments and Cash Management at HSBC.

[Peterhazou@hsbc.com](mailto:Peterhazou@hsbc.com)

[www.cibm.hsbc.com](http://www.cibm.hsbc.com)



The Association of  
Corporate Treasurers

# AMCT

## Associate Membership Qualification

The essential qualification in Treasury, Risk and Corporate Finance

*"When I recruit into my department I look for someone who has, or is prepared to invest in an ACT treasury qualification"*

Andy Longden FCT,  
Group Treasurer,  
Shell International Ltd

The AMCT is a broad-based study programme offering skills applicable to a wide range of financial disciplines. Equally suitable for those working in corporate and banking treasuries, the qualification is ideal for those wishing to pursue a career in treasury or broader roles in finance. It is recognised as an established professional progression for accountants as well as a more flexible alternative to an accountancy qualification.

#### The course comprises:

- Comprehensive distance learning programme
- Excellent networking opportunities at recommended tuition and revision days
- Broad range of topics including risk management, corporate finance and other key elements of financial management

#### Exam enrolment deadlines:

- 31 May for October exams
- 30 November for April exams

#### For further information contact Andy Swallow:

T | +44 (0)20 7213 0729

F | +44 (0)20 7248 2591

E | [aswallow@treasurers.co.uk](mailto:aswallow@treasurers.co.uk)

Full details available at: [www.treasurers.org/amct](http://www.treasurers.org/amct)