
TRANSFER RATE SYSTEMS IN BANKING

*An Intensive 2-Day Seminar About How Leading Banks
Measure the Profitability of Products, Customers, Branches and ALM*

“Increasing Bank Profitability at Acceptable Risk”



Batt-Consulting

MANAGEMENT CONSULTANTS & TOP TEAM TRAINERS
FOR THE LEADERS OF BANKS

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Batt-Consulting

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OBJECTIVES OF THE SEMINAR

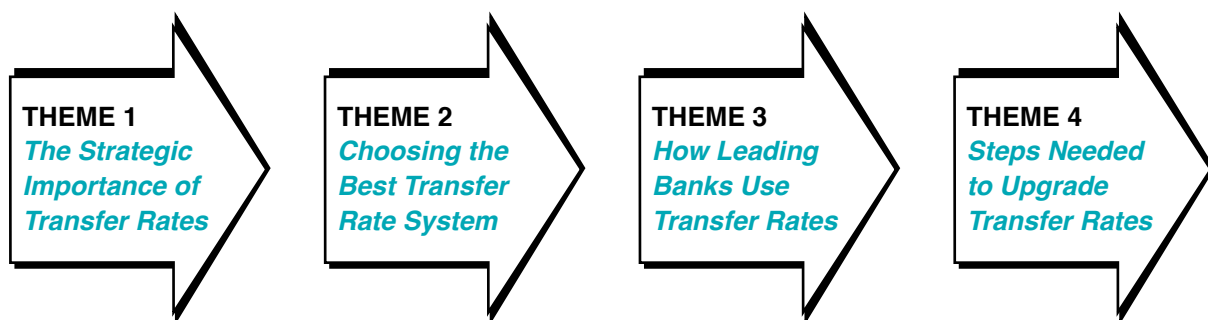
The main objective of this seminar is to explore the various transfer rate systems used by banks to measure net interest margin and profitability and to identify the best approach:

1. To explain how the transfer rate system chosen affects greatly decision-making in the areas of asset & liability management (ALM), marketing, credit, HR and IT
2. To review alternative transfer rate systems: traditional accounting, psychological rates, cost-of-funds, single pool rate, dual pool rates and mark-to-market methods
3. To explore how leading banks use transfer rates to measure the profitability of products, customers, market segments, branches and ALM decisions
4. To assess ways that participants' banks could improve their own transfer rate systems, and the steps needed to implement these changes

The seminar supports Batt-Consulting's series of 8 seminars designed to cover all important elements of bank strategy.

SEMINAR THEMES AND SUBJECTS

The seminar is an introduction to transfer rate systems and how they are used in "world-class" banks. It is a relatively technical seminar that covers the following themes and subjects:



THEME 1: The Strategic Importance of Transfer Rates

To take good commercial decisions banks need accurate information about the net interest margin and profits from their products, customers, market segments, branches and ALM decisions. To provide this information, the correct transfer rate system must be implemented. With a good system, decisions about marketing priorities, credit policy and asset & liability structure are far more likely to be sound. By contrast, an incorrect system will almost certainly generate profitability information which is wrong and seriously misleading.

- *Choosing marketing strategy, setting policies for credit and ALM, measuring staff performance and selecting the right IT systems all demand good profit information*
- *Given the importance of having good profit information, it is critically important to choose the best transfer rate system. Leading banks get this decision right*

THEME 2: Choosing the Best Transfer Rate System

Six main transfer rate systems, plus variations and combinations, are used by banks today. They are traditional profit & loss accounting, psychological rates, cost-of-funds, single pool rate, dual pool rates, and mark-to-market rates. They vary widely in terms of the quality of information produced and the cost to develop, implement and maintain them. Some systems attribute all of a bank's profits to loans with nothing for deposits or ALM decisions and are very misleading. Others reveal true profit performance while others are of an intermediate quality.

- *The cost-of-funds method is still common but it gives all net interest margin to loans. It often fools banks into thinking that loans are more profitable than they are*
- *By contrast, the mark-to-market method shows the true profit contributions from deposits, loans, structural ALM decisions and "gapping" (maturity mismatching)*

THEME 3: How Leading Banks Use Transfer Rates

In leading banks transfer rates are used to define the margins and profitability of all liabilities and assets, and the profits or losses arising from mismatching maturities, foreign exchange position-taking and investment in securities. This means that the profitability of products, customers, market segments, branches and divisions are all fixed by the transfer rates used. Asset & liability committees (ALCO's), marketing & selling committees, credit committees and senior executives pay close attention to transfer rates which underpin their key decisions.

- *In the best banks, profitability performance is the key measure used to assess individuals. As a result, their rewards are affected directly by the transfer rates used*
 - *Advanced IT systems are needed to operate a modern transfer rate system so IT strategy and architecture is influenced by the choice of transfer rates*
-

**THEME 4:
Steps Needed
to Upgrade
Transfer Rates**

When banks upgrade their transfer rate system they normally face great challenges. The first is to make sure that board members, senior executives and managers understand the new system and to train them about how to interpret revised profit reports. Related to this is the need to adjust the performance appraisal of business units. Another challenge is to install the necessary IT systems and adapt existing accounting systems. Sometimes a new core banking system is needed. Changing transfer rates is much more than a technical accounting matter.

- *The most formidable challenge is often to deal with "political" resistance. A new system redistributes profits across the divisions, some of which resent losing profits*
- *It is common to discover that deposits and ALM yield higher profits than loans. Often, retail banking emerges, in truth, as more profitable than corporate banking*

TARGET PARTICIPANTS

This seminar is for Board members and top executives of banks, senior managers who are expected to reach this level soon, and those who support directly the top management teams of their banks:

- Chairmen, Board directors, chief executives and members of top executive committees, especially ALCO's
- General managers, executive vice presidents, executive directors responsible for "profit centre" divisions and subsidiary companies involved in:
 - Personal ("retail" or "consumer"), premium, private and branch banking
 - SME, commercial, corporate, governmental and institutional banking
 - Treasury
- Senior executives responsible for support divisions, including those involved in:
 - Asset & liability management
 - Strategic planning, operational planning, marketing, sales support and budgeting
 - Credit, other types of risk management and financial control
 - Human resources and information technology management
 - Internal audit and compliance

The programme is of particular relevance to banks that need to upgrade their transfer rate system with the aim of improving profitability measurement and bank profitability.

SEMINAR STYLE


The seminar is intensive and participative. Various methods are used:

- Formal presentations, including real case histories, with discussions
- Case studies and "question and answer" plenary discussion sessions

Presentations are delivered in English with simultaneous translation, if required.

SEMINAR TIMETABLE

The seminar is normally 2 days long but it can be 3, 4 or 5 days:

DAY		SESSION		SUBJECT	
1	am	1	Presentation	Seminar Introduction	
		2	Presentation	Theme 1: The Strategic Importance of Transfer Rates A Quick Look at Alternative Transfer Rate Systems	
		3	Presentation	How Transfer Rates Affect Strategic Decisions	
	pm	4.1	Case Study	Theme 2: Choosing the Right Transfer Rate System Measuring Product, Customer, Branch and ALM Profits	
		4.2	Case Answers	Measuring Product, Customer, Branch and ALM Profits	
5		Presentation	Choosing the Right Transfer Rate System		
2	am	6.1	Case Study	Using Transfer Rates to Increase a Bank's Profitability	
		6.2	Case Answers	Using Transfer Rates to Increase a Bank's Profitability	
	pm	7	Presentation	Theme 3: How Leading Banks Use Transfer Rates Case History: Improving Profits at a Medium-Sized Domestic Bank	
		8	Presentation	World-Class Asset & Liability Management and the Use of Transfer Rates in ALM	
		9	Group Discussion	Theme 4: Steps Needed to Upgrade Transfer Rates Upgrading Transfer Rate Systems in Participants' Banks	
		10	Presentation	Summary of Seminar	

SEMINAR LEADERS

Each of the seminars from Batt-Consulting is designed and led by one or more of the firm's senior consultants. These professionals have:

- Held top positions in 15 banks based in Europe, the USA, Latin America, the Middle East and Asia Pacific
- Worked for other leading management consulting firms
- Led hundreds of workshops & seminars for individual banks

They have also spoken regularly for banking institutes, central banks, universities and other providers of bank training.

SOME OF OUR INTERNATIONAL SEMINAR LEADERS AND SENIOR BANK CONSULTANTS

Christopher Batt

Profile: Acknowledged top adviser to the owners, leaders and senior managers of banks about strategy, reorganisation and best practices. An experienced banker, strategist and credit card expert. Consulting to over 140 banks in more than 50 countries. Designer and leader of workshops and seminars for the boards and top executive teams of banks around the world.



Top Banking Positions:

- Jordan Ahli Bank in Jordan - Chief Operating Officer = CEO, reporting to the Chairman of the Board
- Visa International in the USA - Member of Visa's top Executive Committee, Head of Global Strategy
- Grindlays Bank in the UK - GM of Specialised Finance
- NatWest Bank in the UK - Group Planning Manager

Consulting Experience: McKinsey & Company, Booz Allen & Hamilton, A.T. Kearney and Spicers Consultants.

Specialisations: Strategy formulation, strategy implementation, reorganisation, marketing, selling, credit management and ALM.

Qualifications: University of Cambridge, University of London, Fellow of the UK's Chartered Institute of Bankers in recognition of status in UK banking and training services to senior bankers.

Paul McInerney

Profile: Extensive executive-level consulting and training for banks in Europe and Middle East. Focus on personal, premium, private & SME banking & management of modern branch networks. An experienced banker and authority on innovation management in banking.



Top Banking Positions:

- Lloyds Bank
- TSB Bank
- Bradford & Bingley

Consulting Experience:

- Henley-Incubator at the Henley Management College
- NML Consulting

Specialisations: Strategy, marketing and organisation for retail, premium & SME banks; management of branches, sales & credit.

Qualifications: Henley Management College, Cranfield Business School, Associate of the UK's Chartered Institute of Bankers.

Michael Green

Profile: A top international banker. An internationally-renowned leader in enterprise risk management in banking. Accomplished expert in the design and implementation of fundamental strategic change and in corporate governance and risk management by the main boards and top executive teams of banks. Extensive experience across Asia-Pacific, Europe and the Americas.



Top Banking Positions:

- Barclays Bank - Chief Operating Officer, Group Risk (worldwide role)
- Standard Chartered Bank - Main Board Director, Risk, Operations & Technology (worldwide roles)
- National Australia Bank Europe, covering Clydesdale Bank and Yorkshire Bank - Head of Risk
- ANZ Banking Group in Australia - GM of Retail Risk
- Lloyds Bank: UK Chief Lending Officer, Brazil, Japan, Singapore, Spain

Specialisations: Strategy formulation, strategy implementation, corporate governance, risk management and reorganisation.

Qualifications: Oxford University, INSEAD. Diploma in Company Direction (governance) from the UK's Institute of Directors.

Chris Churchill-Coleman

Profile: Leading adviser about IT to the leaders of banks across the UK, USA, Europe, Middle East and Africa. Expert at internet & mobile banking. Wide experience of major IT systems changes, including core IT systems replacements. Years of experience as a practical banker.



Top Banking Positions:

- Abbey National Bank
- Cahoot (internet bank)
- Nationwide (mortgage bank)

Consulting Experience:

- Open Text
- The Prism Group

Specialisations: Bank strategy, IT strategy, internet banking, mobile banking, core IT systems replacement.

Qualifications: University of Leicester, Associate of the UK's Chartered Institute of Bankers, a UK Chartered Treasurer.

A SERIES OF 8 LINKED SEMINARS

The seminar described in this brochure supports a series of 8 linked seminars developed for the top teams of banks around the world.

These progressive banks are keen to understand the type of strategies and best practices followed by “world-class” banks. To assist, our firm has developed the seminar series shown below. The seminars:

- Focus on issues that banks most frequently ask us to help resolve, both as consultants and seminar leaders
- Are integrated and fit together well
- Concentrate on practical implementation

The series covers all key aspects of running banks successfully in competitive markets.

Many banks ask us to lead all 8 seminars over a year or so. Other banks choose a selection of seminars that focus on areas of particular interest:

THE OVERVIEW SEMINAR

Increasing Bank Profitability at Acceptable Risk

FOCUS ON BUSINESS STRATEGIES

“World-Class”
Marketing & Selling

“World-Class”
Credit Risk Management

“World-Class”
Asset & Liability Management

FOCUS ON SUPPORT STRATEGIES

Reorganising & Reengineering
for Higher Profits

Extracting Maximum Value from
Information Technology

Managing & Motivating
the Workforce for Excellence

FOCUS ON STRATEGIC PLANNING & ACTION PLANNING, BUDGETING & FINANCIAL CONTROL

Best Practice Bank
Planning & Control Systems

The first seminar is the introductory programme:

- Examines all elements of bank strategy
- Shows how they can lead to greatly increased bank profitability and acceptable risks, if they are formulated carefully, coordinated tightly and implemented well

This introductory seminar is followed by the others that go into more detail about key business strategies, crucial support strategies and best practice planning & control systems.

Separate brochures describe each seminar. The content of the seminars is adjusted to meet the needs of individual banks. This “tailor-making” of the seminars is handled by discussion before the seminar series begins.

As management consultants, we help banks to resolve their most important strategic issues. As a result, we know which seminar subjects are of greatest interest to top bankers in different types of bank and country. We develop seminars that are relevant, stimulating and fresh.

Because our consultants have held top positions in leading banks around the world, they have the experience necessary to judge which approaches to strategy and management are practical and will be successful. These judgements are built into the seminars offered by our firm.

ABOUT BATT-CONSULTING

Batt-Consulting is a specialised, top level management consulting and training firm that works, world-wide, with banks and other organisations active in the financial world.

The firm is based in the United Kingdom with consultants in the UK and Czech Republic. It was established in 1990 to provide top level consulting and training to banks with an emphasis on profit improvement, business and support strategy, risk management and reorganisation work.

The firm's senior consultants have all held senior positions in banks. The majority have worked for other prominent management consulting companies. Over their careers as both bankers and consultants they have served more than 150 banks in over 50 countries.

Services Provided

The main mission of Batt-Consulting is to help banks increase profitability at acceptable levels of risk. This means resolving complex issues that relate to:

*Overall Bank Strategy
Domestic Strategy
Marketing, Product & Delivery Channels Strategy
Credit Risk Policies & Processes
Organisation Structure Design & Implementation
Management Process Reengineering
Information Technology & Internet Banking
Planning & Control Systems*

*Corporate Governance
International Strategy
Selling Intensity & Methods
Asset & Liability Management
Treasury Strategy & Organisation
Operations Strategy & Reengineering
Human Resources Management
Management Information Systems*

The firm provides three types of service:

*Management Consulting
Best Practices
Education*

*Designing and Leading Strategic Projects
Helping Banks to Reach "World-Class" Standards
Leading Top Management Workshops & Seminars*

Consulting & Best Practice Clients

Our consulting and best practice clients are the owners and leaders of banks and other financial institutions, both small and large. Some are famous internationally. Others are leaders in their own local markets. Most importantly, we serve:

*Commercial Banks
Savings Banks
Mortgage Banks
Co-operative Banks
Private & Premium Banks
Financial Services Groups*

*Investment Banks
Merchant Banks
Asset Management Firms
Stock Brokers
Central Banks & Regulators
Insurance Companies*

Education Clients

Batt-Consulting serves four types of education client:

***Individual Banks.** We help banks' top teams keep up-to-date with bank strategies and methods by designing and leading short, intensive, in-house workshops & seminars.*

***Banking Academies & Institutes.** For these we design and lead public training meetings for senior bankers.*

***Sponsors of Bank Education,** including banking schools, central banks, bankers' associations and universities.*

***Providers of IT to Banks.** These companies ask us to brief them about banking strategies to help ensure their own services are correctly focused.*

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