# Choosing a banking partner for your funds?

## Posing these questions will help you make a more informed decision.

Opening a bank account. A straightforward task, you would think. So peripheral and inconsequential as far as fund operations are concerned that it should be well down the list of priorities.

Think again! In a recent survey carried out by the Aztec Group among leading private equity CFOs and COOs, opening a bank account was identified as one of the top five most significant operational challenges encountered by fund managers when establishing a new fund.

And with good reason. Delays in setting up a bank account will ultimately delay the fund going about its everyday business.

But this is really just the tip of the iceberg. What goes on behind the scenes, from the technology the bank deploys, to the processes and procedures that dictate and govern how they perform their tasks and activities, will have a significant impact on your banking experience.

Clients have a tendency to select a bank based on factors such as the existence of a personal relationship, size, reach and reputation. While there is merit in factoring these points into your decision making criteria, it always pays to lift the bonnet and kick the tyres – i.e. dig a little deeper.

So, where do you start? Here's a quick summary on where to focus your "tyre kicking" efforts:

### How seriously do they take security?

A secure online platform or portal that requires multifactor authentication (MFA) and utilises sophisticated encryption tools will greatly reduce the risk of fraud. Without this, a bank may, for example, act on fraudulent manual payment requests without verifying where these have come from. A bank with MFA requires two people to sign into an online platform with individual security tokens to authorise payments, thereby dramatically reducing the risk that fraudulent requests are actioned.

## How sophisticated is their platform?

Most banking platforms these days are digital or digitally enabled, but you should expect nothing else in today's world. In our experience, where technology delivers a real "value add" is where it facilitates communication and collaboration between third parties. Some banks, for example, enable us to effectively plug into their systems and undertake tasks such as securely adding and removing access rights ourselves. Manual requests and actions lead to greater inefficiency – it's that simple.

## How do their fraud prevention controls measure up?

Best in class anti-fraud controls come with role and user segregation as standard, providing additional levels of verification and checks. For example, certain banking platforms enable us to strictly define and assign responsibilities for members of our team. We do this by allocating them one of three roles: system administrators, who can set up authority levels but nothing else, inputters, who can input payments but not authorise them, and checkers, who authorise these payments but do not input them. Allowing us to do this means we can act quickly where amendments are needed. A bank's awareness of fraud, outside of its technological systems for detecting it, should be as robust as possible. Processes such as call-backs on manual payments, a verification that the instruction has been received, provide an additional level of checking and additional reassurance that fraud prevention measures are suitable for your needs.

## How do they mitigate or reduce the incidence of human error?

Human error can lead to financial loss, reputational damage or even both. Technology can play an important role in reducing the incidence of error across key activities and actions, such as foreign exchange transactions. For example, FX transactions carried out on an online platform, rather than over the phone, take interpretation issues out of the equation. Most platforms also have the added advantage of an inbuilt review and approval process too, adding an additional layer of assurance.

## How do they deal with a change in mandate?

Mandates can and do change, so flexibility is critical. Take the time to understand the bank's process around changes to mandates and whether it meets your expectations. For example, If a new one is required every time a signatory changes, you may have to re-sign everything for each change, which can take a significant amount of time and effort. Ideally permissions should be easy to set up and adjust, and the bank will act quickly on these.

## Are they comfortable with, or equipped to onboard, PEPs or complex investors?

Some banks have very rigorous rules and procedures in place around PEPs and high profile investors, which may not only have the potential to significantly slow down the investor onboarding process, but also frustrate your investors as well. First of all, understand if there is anything that can be done to minimise delays and limit inconvenience caused to investors. If not, a judgement needs to be made as to whether this is a trade-off you are prepared to accept.

## Do they have a fit for purpose business continuity plan in place?

Although it may seem a remote possibility, it is also worth considering what processes the bank has in place for a crisis. Are there business continuity plans in place? Does the bank have disaster recovery protocols to get systems up and running again should they go down? Having your bank's system fail and having no access to facilities as a consequence can have significant implications, particularly in time-sensitive situations such as the final stages of a deal process.

## Final thoughts

In summary – while opening bank accounts may not be top of your list when establishing a new fund, a bit of time invested in choosing the correct banking partner for you is well-spent. Should you outsource your fund administration, they'll also be well placed to answer good probing questions about banks they work with. A banking platform could well be in place for the ten-year plus life of your fund, and subsequent raises, and the process gone through to select your bank should have that time-frame in mind.