



Managing employee expenses in the financial sector

Adopting best practices to meet changing needs

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Under intense scrutiny after one of the worst recessions in history, the financial sector is going through global and local changes. The drive for more transparency in how banks and other institutions transact business has led to new legislation around how their employees can spend money, especially when dealing with third parties. The need to demonstrate that any expense incurred is not a bribe, is not part of a money laundering system or could be construed as having the aim of leading to the institution being perceived differently by the third party means that stringent policies and procedures are now required.

The need to ensure that employees remain within the bounds of policies dictating permitted expenses cannot be left to chance, or to expenses being dealt with after the point of transaction. Only through the use of pervasive and flexible tools can an institution ensure that the changing nature of compliance in travel and entertainment (T&E) expenses can be suitably managed.

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The fierce gaze of the public is on financial institutions around the world. As governments try to assuage the public's anger – and to deflect any focus from their own shortcomings – there is a renewed push to drive transparency through many aspects of how the financial markets conduct their business. One such area is around travel and entertainment expense management – historically seen as a key tool for closing business, it is now being seen as an area open to outright bribery, for abuse by individuals or just sheer excess. Institutions need to put tools in place in order to meet the changeable and often contradictory global rules.

“Finance” is now a dirty word to the majority of the public	The global recession has been laid firmly at the door of the financial community. However true or false this may be, governments have chosen to enact new legislation aimed at improving the visibility of how institutions conduct their business.
Laws are already changing – and will continue to change	Many laws have been rushed to the statute books, and are already being shown to be unfit for purpose. As these laws have to be revisited and modified, those institutions that have attempted to demonstrate compliance to the early instances of the law are finding that the changes cannot be easily adopted within their hard-coded on-premise systems.
The need to prove that expenses are not bribery leads to new challenges	Entertaining customers now becomes a minefield. Expenses have to be controlled within frameworks of what is deemed to be acceptable – not just from the point of view of taxation, but as to whether excessive expenditure on prospects and customers can be construed as bribery. Ensuring that expenses are reasonable and validated has to be a focus.
Domain expertise is becoming increasingly important	Attempting to manage and maintain systems that can reflect the continually changing legal landscape is no easy task. For global financial experts involved in travel between different countries, ensuring that the point of expense and the point of claim meet with local, larger geographic and global requirements is becoming impossible. Outsourcing to a body that can not only manage the technical aspects of expense management, but also the legal aspects, can ensure that compliance is maintained.
Expense management is mission critical, but is a commodity process	Although there is an increasing need to ensure that expense management meets both internal and external needs, the basic processes that underlie expense management are, in themselves, relatively simple. For an organisation to create the platform to support such processes in-house involves far more cost than just the software licences – hardware is required, operating system licences and so on, as well as skills to manage both the technical and business aspects. Outsourcing is a far more effective approach.
The user will decide if an expense management system is acceptable	Any system that is seen as being overly intrusive on an employee's work will be either disregarded or worked around. The system has to be seen as making the employee's life easier and ensuring that they remain on the right side of the laws and policies that could impact them and their employer.
Coping with mobility is a key aspect	The majority of expenses will be incurred while employees are mobile – and it is difficult for employees to fill in expense claim forms after the fact. Capturing full details of expenses in as simple and effective a manner as possible at the point of transaction is becoming ever more desirable.

Conclusions

Ensuring that expense claims are reasonable is no longer just a matter of internal concern within financial institutions. The need for expenses to fit within legal constraints, to be seen as what constitutes bribery and what exceeds acceptable subsistence and entertainment spend means that systems have to be put in place that can deal with rapidly changing legal frameworks, yet make it easy for employees to remain within policy and demonstrate compliance in their day-to-day business expenses.



The finance industry: expenses, present and future

Historically, travel and entertainment (T&E) expense management in the financial industry has tended to be a case of “what is needed has to be done”. This has often led to large expense bills being built up as institutions have vied with each other to impress prospects, to keep customers and to close contracts. Although little of this was in any way illegal, it did lead to a perception of both excess and of sailing very close to the wind, when it came to the point of law, especially amongst those outside of the financial sector. Where the law had actually been broken, those that came to light only served to cast a greater shadow over the expense culture within the sector.

With the massive changes of the last few years, financial institutions have suddenly found themselves under the utmost scrutiny by governments and the public alike. The global recession has been laid fairly and squarely at the door of the financial community. The public have been led to believe that profligacy, bad loans and a lack of foresight combined with a “get rich quick” mentality is prevalent across the financial sector, and governments are happy to reinforce this view as it enables them to avoid too much scrutiny of the part they have played in the situation. The perceived excesses of the boom years are being blamed for the current mood of austerity, and local and global laws are being enacted to make all aspects of investment and retail banking, as well as insurance, more transparent to both the governments and the general public.

For the present, this means that institutions are in a period of flux; the rules are unclear and are often contradictory when looking at how local, greater geographic and global rules interact. The future will lead to a clearer set of policies that the institutions will have to follow, and now is the time when they should be considering what options there are to ensure that future rules can be easily – and cost-effectively – managed.

The expense conundrum

Any business needs to ensure that new prospects see them as being “good guys” and that existing customers are managed in a manner that encourages them to stay with the business. For low value, low margin businesses, this could be through the giving of small gifts at certain times, or in a meal at a restaurant during contract negotiations. This is all legal, and there are rules around how much can be provided and up to what commercial value before it is seen as being unreasonable – and therefore as an overt bribe in order to win new custom. Indeed, where the deal is between businesses, many organisations will have built in their own limits as to what an employee can accept through gifts and entertainment so as to avoid any accusations that the employee could have been swayed by the generosity of a supplier.

However, within the financial industry, many of the prospects and customers are private individuals of considerable wealth and liquidity. A free mouse mat, a bottle of cheap wine at Christmas or a meal at the local restaurant cuts no ice with these people; they expect – indeed demand – that they are dealt with in a manner that reflects their own wealth and standing. A culture of expensive meals at top-flight restaurants, all expenses paid entertainment at sporting and cultural events and of general high living has permeated the upper echelons of the financial markets. Expense claims can run to very high levels for a single meal or event. However, the internecine war between different institutions and employees means that it has been incredibly difficult for the institutions involved to even attempt to rein in excesses. The battle to gain control of an individual means that the customer does come first – and this has led to some questionable approaches from employees.

Even at the business level, some of the deals involved make standard customer/supplier deals look very small in comparison. Having control of a Global 500 company’s banking transactions, being a corporate merger and acquisition advisor or managing a company’s pension schemes are big-ticket deals that do not come around very often. Missing out on any of these can not only be a black mark against the individuals involved, but can have a major impact on the institution’s perception in the market from its own management through to its other investors,



customers and shareholders. This is a high pressure environment, and it is not surprising that expenses are often high – but when seen as a proportion of the possible value of the overall deal, the expenses are actually not that much.

However, to the general public, there is a need to be able to demonstrate that there is not “one rule for us, one for them”. If expenses are proportionate, then so be it. However, if the scale or means of expense move the action beyond entertainment and places the recipient into a position of being preferentially treated so as to attempt to force a deal, then this is effectively bribery – and is therefore illegal.

Another necessary part of carrying out business is around corporate hospitality; the taking of customers and prospects to e.g. sporting or cultural events. Although the main event may be paid for from a central fund, employees are often paying for ancillary costs, such as drinks, programmes and so on from their own credit cards and then reclaiming these. However, the UK has been looking at introducing anti-bribery legislation through the Bribery Act that attempts to separate out what is hospitality and what can be construed as bribery – but has already had to backtrack on aspects of this as it becomes increasingly apparent that certain parts of the act are unworkable. It still means that the individual will have to detail their expenses incurred during any hospitality event, and will have to make sure that these are proportionate with the event and the prospect or customer involved.

In the U.S., the Foreign Corrupt Practices Act (FCPA) is being tightened up and may well be brought in to play for domestic purposes as well. Again, the Act here attempts to crack down on many practices where expenses are used as a means of bribing an official or a contact at a prospect or existing customer. The FCPA also mandates that policies should be in place within the business that can accurately report in detail on certain financial transactions (including expenses) incurred by individuals in their interactions with foreign individuals employed by certain types of business or involved with foreign governments. In all countries, there will be existing laws around embezzlement, fraudulent expense claiming or common theft for financial gain from an employer in place, and it is increasingly important for employers to safeguard their employees from accidentally falling foul of the complexities of such laws, as well as clamping down on a malicious employee attempting to obtain financial benefit through illegal means.

A key part of any anti-bribery legislation is to be able to prove that the expense claimed was actually incurred and that the way that it was incurred met with both internal and external policies. Therefore, when an employee claims for a meal for six people at a particular restaurant, did it take place at all, was it at the right restaurant, were six people present, and were they the people that the claimant says that they were? Historically, this tended to be done “on the nod”; the employee was trusted, and any “imperfections” in the filed expense claim were put down to the need for business to be carried out this way.

Now, proof will be needed for the majority of expenses. In many cases, signatures of all prospects and customers partaking in a meal will be required as well as detailed receipts of all items. All of this can easily get in the way of the reason for the event itself - *doing business* – and can still be worked around by a determined employee, who can gain the signatures later based on a “do me a favour” basis or can forge them if necessary.

If legislators choose to get heavy handed over this, they will begin to cross-reference claims and will require companies to open up the schedules of their employees to ensure that people who have claimed to be at an event or a meal really were there. Businesses need to have an easy means of ensuring that expenses not only fall within the remit of their policies but also that the claims are valid and true.

So the conundrum is this – how can an institution ensure that it complies with the multiple different legal aspects of travel and expense management while still providing an experience that meets the needs and expectations of the business and its employees whilst ensuring that they are not disadvantaged against their competitors?



Creating a suitable, manageable expenses policy

At the centre of any set of travel and expense policies is the need to decide what the business itself expects. For example, will all employees be allowed to choose their own means of travel, will they be able to travel business class, will their subsistence claims be unlimited? Is there a need to differentiate between different classes of employee, such as a main board member and a sales executive? Will different rules apply for e.g. a two-hour and a ten-hour flight as to the class of travel? These decisions are generally not dictated by external law; they are something that the business has to agree internally based on its own risk and cost profile. For example, a business with a lot of international travel may well decide that business class travel is only available on certain routes, or where certain cost constraints can be met.

Once the internal policies have been agreed, it is then necessary to ensure that these do not conflict with external legal requirements. This can be more of a problem, as the rules for basic travel and expense management vary geographically. For example, some countries (such as the US and the UK) allow “open” expenses – that is, as long as proof of expense can be demonstrated and shown to be necessary as part of the claimant carrying out their business; whereas others (such as Germany and Denmark) may allow only a “per diem” – a daily amount that can be claimed, with anything above this either being disallowed or becoming a taxable benefit in kind.

However, within the financial markets there are additional constraints around T&E management. Although the standard rules will apply around mileage rates, subsistence and accommodation claims and so on, the need to be able to demonstrate that all entertainment expenses within such a high-pressure and high-value environment have been incurred correctly and in line with anti-bribery laws adds further complications.

Understanding and managing the changing face of the legal aspects of T&E is no easy matter. Gaining a deep understanding of the issues involved and keeping this current is expensive – and may still be constrained by the technology used to manage such a system if it is not flexible enough.

So, calling on external expertise makes a lot of sense. The skills required are then shared between all the businesses that are using such a system, ensuring that costs are also shared – and the technology platform should be matched to the need for a flexible yet auditable and reportable set of policies and procedures.

Ensuring that a chosen system can suit both office-based and mobile users, has a low impact on employees when it comes to logging expenses, has a comprehensive approach to how the legal and internal aspects of T&E management is carried out and has the capacity to provide full reports that meet the needs of internal and external bodies, must be areas of focus.

Capturing T&E details

At a basic level, the claiming of expenses has not changed much over the years. An employee incurs a cost for something that they need to do in carrying out their job, and wants to reclaim that from their employer. Over time, the employer has often brought in centralised controls for certain expenses – for example, office supplies being carried out through a central purchasing department, and travel booked through a specific internal or external agency.

However, Quocirca has seen a distinct change in the past few years. The consumerisation of the business has led to more employees sourcing their own items – whether this be a laptop, a mobile phone or business travel. This lack of centralisation has multiple impacts on businesses; from less visibility of enterprise-wide expenses through to the incapability to negotiate volume discounts on certain types of expense. Quocirca does not believe that it will be easy



to counter this trend; employees like to be more in control, and can often find a good deal that would either be missed by a centralised system, or not allowed through it.

The aim has to be to ensure that any T&E expense is captured before it is carried out, wherever possible, and compared against the corporate policy to ensure that it fits within it. If the expense falls outside of the agreed policy, a means of raising this as an exception should be allowed, so that a rapid response can be received by the employee as to whether such a claim would be allowed.

For example, when booking travel it should be as simple (or even more simple) for the employee to access a range of available travel offers that meet corporate policy through the T&E system as it is to access the same information from outside the system. This means that the system needs to have links between it and the various travel companies so that the offers can be presented and then the chosen travel method captured and logged. If the employee is paying via their personal credit card, then this expense needs to be repaid directly and promptly direct to the card issuer – not through a labyrinthine expense repayment system where the employee gets the expense money back via their pay cheque and then has to pay the credit card company themselves – possibly incurring interest and late payment charges in the process.

Any chosen system also has to ensure that the needs of mobile employees are fully catered for, because, by definition, they are the ones most likely to be incurring expenses. This means that the T&E system has to be available to the employee at the point of incurring the expense. Therefore, the system has to be device independent – having a system that is dependent on, for example, a laptop may mean that the employee will not use it if their preferred travel device is an iPhone or BlackBerry – they will incur the expense and argue the case later if necessary. Through enabling smartphones as devices, any expense can be entered rapidly and automatically and allowed if it meets corporate policy, or raised as an exception if it does not. A response can be sent back immediately so that the employee knows their position around the expense itself.

However, within the financial industry, more information is going to be required for each claim going forward. For example, where entertainment is being claimed, it will be necessary in many circumstances to “prove” who was present at a given event. Using the camera within a smartphone to attach photographs of those present along with a photograph of the receipt for the meal is a rapid and effective means of providing the necessary level of supporting material.

It will also be the case that a financial sector employee in such an environment will need a greater granularity of policy than the average employee in the private sector. For example, if a meal is pure subsistence – a meal for the employee alone when away from their home – then it may be covered under one rule. When sharing a meal with their peers from other institutions, it may be covered under a different rule. When the expense is part of a broader corporate hospitality event, it may be different again, with further variation for a one-to-one meal with a high-value prospect or customer. Each of these situations may need different supporting information and be covered not only by internal needs but by legal requirements as well.

It cannot be expected that the employee carry all these different rules around in their own head. Therefore, they may face a need to be able to check a proposed expense easily and rapidly before they incur it – and again, the use of their device of choice is key to how successful any system will be. Admittedly, this may not always be possible, but as a safeguard against fraudulent or excessive claims, it can be a distinct help.

Further, availability and support are also important. If a system is not accessible, then the employee is forced to depend on their own memory as to what is allowable and what isn't – and any errors will incur considerable cost when the business and the employee have to sort out any issues after the expense has been made. Should the employee not be able to figure out how their proposed expense fits within the existing policy, they will need to be able to turn to a suitable support resource – no matter where they are in the world or what time it is. Again, both of these issues point towards the need for an externally hosted service that can provide far greater availability than an internally managed one, and any provider of such a hosted T&E system should also be able to provide world-wide, any-time support for their system and for the basic policies that a customer has in place.



Conclusions

Financial institutions have to come to terms with the new reality – business will have to be conducted more transparently, and there will be an increased need to be able to report on certain types of expenditure in a rapid and effective manner to internal and external stakeholders. The move to ensure that transactions between financial institutions' employees and external individuals not only meet internal policy, but also meet legal requirements, will lead to a need for highly granular and complex rules to be applied, with an on-going need for these rules to be modified based on how governments and other regulatory bodies view how well current laws deal with the issues.

This, in turn, will drive the need for highly flexible systems to make the capture and validation of T&E effective and efficient at the point they are incurred. This means that the access device will have to be as chosen by the employee – whether this is a smartphone, a tablet, laptop or any other device. The system has to be easy enough to use so that the employee sees its use as helping them to remain within policy, that it does not impact their capability to transact business, and that the expenses they incur will be recompensed rapidly and effectively.

The dynamic nature of the legal aspects of T&E management means that it is difficult for any business to manage the rules effectively internally, especially where international travel is involved. Choosing an external provider with a good record, that has a global reach and support capability and can demonstrate domain expertise in how businesses need to deal with the legal side of T&E management is key to making it an asset to the business – not a time-consuming chore.



About Concur Technologies, Inc.

Concur is a leading provider of integrated travel and expense management solutions. The company was founded in 1993 on the premise of helping to drive costs out of business through innovation.

With approximately 20 percent of T&E spend out of policy, Concur's easy-to-use Web-based and mobile solutions help companies and their employees control costs and save time. Concur's systems adapt to individual employee preferences and scale to meet the needs of companies from small to large.

For organisations, Concur helps ensure that corporate travel is booked within policy before the trip is taken and reconciles expenses after travel is completed. And, by delivering electronic receipts – from airlines, hotels, and car rental companies – directly into expense reports, Concur virtually eliminates the need to track and manage paper receipts. To keep employees productive while travelling, Concur's mobile application enables business travellers to create, review and approve expense reports and book and change travel itineraries – hotels, airfare, taxis, rail and rental cars – all from a smartphone.

By capturing and reporting on every aspect of T&E spend, Concur's services provide detailed information to help clients effectively negotiate with vendors, create budgets and manage compliance. Trusted by thousands of businesses in more than 90 countries, Concur's on-demand services process over \$50 billion in travel and entertainment (T&E) spend a year. Learn more at www.concur.co.uk.

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REPORT NOTE:

This report has been written independently by Quocirca Ltd to provide an overview of the issues facing organisations seeking to maximise the effectiveness of today's dynamic workforce.

The report draws on Quocirca's extensive knowledge of the technology and business arenas, and provides advice on the approach that organisations should take to create a more effective and efficient environment for future growth.

About Quocirca

Quocirca is a primary research and analysis company specialising in the business impact of information technology and communications (ITC). With world-wide, native language reach, Quocirca provides in-depth insights into the views of buyers and influencers in large, mid-sized and small organisations. Its analyst team is made up of real-world practitioners with first-hand experience of ITC delivery who continuously research and track the industry and its real usage in the markets.

Through researching perceptions, Quocirca uncovers the real hurdles to technology adoption – the personal and political aspects of an organisation's environment and the pressures of the need for demonstrable business value in any implementation. This capability to uncover and report back on the end-user perceptions in the market enables Quocirca to provide advice on the realities of technology adoption, not the promises.

Quocirca research is always pragmatic, business orientated and conducted in the context of the bigger picture. ITC has the ability to transform businesses and the processes that drive them, but often fails to do so. Quocirca's mission is to help organisations improve their success rate in process enablement through better levels of understanding and the adoption of the correct technologies at the correct time.

Quocirca has a pro-active primary research programme, regularly surveying users, purchasers and resellers of ITC products and services on emerging, evolving and maturing technologies. Over time, Quocirca has built a picture of long term investment trends, providing invaluable information for the whole of the ITC community.

Quocirca works with global and local providers of ITC products and services to help them deliver on the promise that ITC holds for business. Quocirca's clients include Oracle, Microsoft, IBM, O2, T-Mobile, HP, Xerox, EMC, Symantec and Cisco, along with other large and medium-sized vendors, service providers and more specialist firms.

Details of Quocirca's work and the services it offers can be found at <http://www.quocirca.com>