GETTING TO KNOW EACH OTHER

WITH THE EVER CHANGING FINANCIAL LANDSCAPE, IT PAYS FOR FIRMS AND THEIR RELATIONSHIP BANKS TO KNOW EACH OTHER'S BUSINESS INSIDE OUT, SAYS **JEREMY HODGES** OF STREAMVPN.

In the current credit environment, the relationship that exists between clients and their bankers could not be more important. Treasurers are continuing to look at ways to maximise the value of their banking relationships and, as a result, improve productivity and reduce costs. This will, in many cases, mean that finance directors and treasurers will look to boost their negotiating power and ensure that the majority of their banking business is channelled through their core relationship banks. One large European corporate that recently rationalised its banking relationships is very clear about the advantages of such a move. A source commented: "We want to be as committed as possible to our core banks. We only have a certain amount of fee-based business so we need to be careful about how we spread it around.We have already seen a growing trend for treasurers to use fewer banks and, with the banking market historically over-banked, this trend could benefit both sides.

A report published by Fitch earlier this year revealed that banks supply two-thirds of corporate debt in Europe. It is clear that there is now a major move by the banking community to link their financial commitment to companies with higher revenue earning business, such as M&A advisory, syndication, derivatives and cash management. The large global money centre banks such as Citigroup and JP Morgan Chase have quickly identified that the key to a multi-product relationship is their ability to lend, and the treasurer is aware that there is only a certain amount of fee-based business available to relationship banks.

Research by Greenwich Associates has found a distinct link between banks that provide credit facilities and those that receive investment banking mandates. The inevitable conclusion is that companies and their bankers need to forge stronger strategic partnerships. "Increasingly, the participation of banks in a major financing is conditional on them being awarded the mandate for a future, more lucrative, deal," said one treasurer of a FTSE 100 firm.

Relationships are key. Clients are looking for input in the ongoing phase of the relationship (market insight, intelligence, creative ideas and the like), but bankers get paid when they do deals. This fundamental disconnect between value-add and reward often creates ambiguities and frustrations on both sides. The ability to measure relationship strength on a regular basis is the solution to this problem. These developments in the client/bank relationship have led to new solutions being pioneered by companies such as StreamVPN to enable clients to measure and maximise the value of their banking relationships. Business processes in the investment banking industry have remained unchanged for decades and the inherent inefficiencies adversely impact the value chain for all participants.

BETTER RELATIONS. The development of a new online relationship management service is designed to allow companies, investment managers and private equity firms to manage multiple and complex banking relationships through a single, tailored client portal.

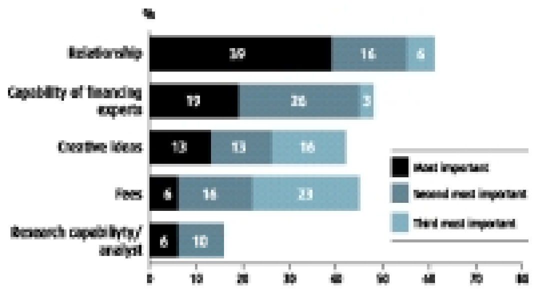
Recent research has revealed that clients still perceive banks to be more 'product' than 'client' focused, despite the claims by the majority of banks that they are now more customer driven. Trusted relationships are crucial and by far the most important factor when clients award transaction mandates (see *Table 1*). While it was found that 40% of treasurers felt they had systems in place to enable them to measure a bank's performance, these tended to be based on more transaction-defined measures such as price, spread and the diversity of products offered. The ability to evaluate a relationship objectively in terms of the bank's idea generation, product innovation and responsiveness to client priorities was more difficult to achieve.

When asked if they knew how they were rated as a client by their banking relationships, more than half said they had no idea how or whether an assessment was made. The more advanced banks use systems that enable them to determine which clients are the priority targets, and which are not. However, one senior banker remarked that he values a CFO who gives clear directions about what his company wants, sets performance targets and deadlines for new ideas, and organises his team well so that there's no confusion about internal lines of communication.

Effective relationship management is crucial to maximising the value of a bank's contribution to a client's business objectives.

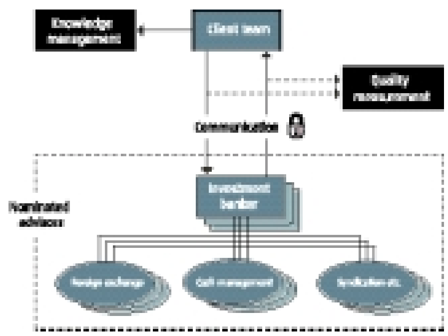
How is relationship management measured today? The role of the relationship manager has not really changed in the past 10 years. Most banks operate with a point person who retains overall responsibility for the client relationship, who co-ordinates the overall relationship with their clients through regular meetings,

FIGURE 1
IMPORTANT FACTORS IN DETERMINING HOW TO ALLOCATE A FINANCING MANDATE.



Source: NOP Research commissioned by StreamVPN (July 2002)

FIGURE 2
RELATIONSHIP NETWORK SERVICE.



Source: StreamVPN Limited

understanding the treasurer's priorities and attempting to bring the bank's product expertise to the client. As one UK corporate treasurer remarked recently: "Banks like Citigroup are able to tell me at the touch of a button my facilities worldwide, the amount of business I transact with them and the fees they have received from our group." There is no doubt that this is useful information, but this deals with the quantitative element alone and *qualitative* information about trade ideas, business intelligence responsiveness to client requests and overall level of service are still missing.

The desire to learn more about corporates and the nature of their business has led some banks to conduct their own market research with their clients through an annual survey. Some have even hired specialists to undertake the research to ensure that the questions and feedback is unbiased. While this type of information-gathering gives a bank a better insight into the type of treasury business their customers transact and how they rate the service of that particular bank, they are only capturing information at a particular point in time, say, annually.

The survey is an additional burden on scarce resources, rather than an integrated part of the existing business process. The priorities of CFOs and treasurers are changing constantly and the nature of their business is constantly adapting to a changing world, therefore a more dynamic process is needed.

The investment banks have created teams of product and corporate finance specialists to service large multinational companies that manage multiple bank relationships with global exposures. This has created a team of dedicated professionals that are focussed on a small group of customers in order to gain a better understanding of their objectives. The benefits to be gained from this ensure that a strong relationship is established with this small group, but what about the other significant European corporations?

The goals and objectives of both clients and their bankers have much in common, so the creation of a browser-based service by an independent, neutral third party that does not involve the installation of further software for the client and the banker would have a significant impact on the business process. By conducting a portion of banking interaction through one digital platform, finance directors and treasurers are then able to evaluate the contribution of their banks' performance against a pre-defined set of criteria.

New ideas and information flow from the banks would be automatically indexed into client-defined categories so that the right person on the client team receives the right information. The ability to provide prompt feedback on information received would ultimately result in higher quality idea and information flows, and enable the client to constantly measure the bank's performance. If all communication from the banks were stored directly in digital format, creating a secure library, this information could then be accessed from other groups within the company.

BETTER ACCESS. The ability to access industry, sector and product experts creates stronger relationships beyond the relationship manager, which makes for more productive communication. The increased use of treasury systems and transaction portals means treasurers are looking for a simple, secure and efficient way of leveraging their buying power with both quantitative and qualitative information about their core banking relationships. The potential benefits to both clients and banks of a neutral relationship management service are clear:

- superior information about banking activity and relationships;
- enhanced centralised knowledge of treasury activities across the group;
- more structured and relevant idea generation;
- objective data and statistics on the absolute and relative performance of core banks;
- better informed banks, resulting in more relevant meetings and proposals;
- more effective internal information and knowledge sharing;
- less wasted time and increased productivity at a lower cost; and
- stronger, deeper and more strategic banking relationships

Banks also are able to forge stronger relationships through a clearer understanding of their client's priorities, better understanding of their business and strategy, regular real-time feedback and the ability to measure themselves against their competitors. As treasurers make decisions about how they allocate their business and what they need from their core banks, the relationship network will prove invaluable in measuring and maximising the value of these important relationships.

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