Great expectations

Each year a CBI-sponsored satisfaction survey asks more than 450 finance directors of UK companies to ascertain their satisfaction levels with a range of service providers. Consistently at the bottom of the satisfaction league, just above insurance providers, are the banks. In 2005, the banks recorded an average satisfaction score of 6.62 (out of 10), which was at least an improvement on the 6.08 scored in 2003. While Lloyds TSB Corporate (now rebranded Lloyds TSB Corporate Markets) was rated top bank in the survey, with a score of 7.11, there is clearly no room for any corporate bank to be complacent. Many corporates are unhappy with the banking services they receive and it is up to the banks to take notice.

Yet the survey also reveals an underlying dilemma. What should corporate treasurers expect from their bankers? And, for that matter, what should bankers expect in return – apart, of course, from their money back with interest?

This is a far from flippant enquiry. While corporate treasurers have been able to ride a wave of bank liquidity in the past three or four years – allowing many to arbitrage between banks to obtain fine rates – the recent upturn in interest rates suggests the era of cheap and freely available money may be coming to an end. In this new environment, the relationship between banker and treasurer is likely to become equally important for both parties.

Executive summary

- Treasurers view their relationships with their bankers as one of their key responsibilities. Banks also take the relationship with their corporate clients very seriously. Sector knowledge, business-specific knowledge and an understanding of the individual treasurer all have a part to play in building the ideal banker/treasurer relationship.

THE TREASURER'S TALE Certainly, a key expectation for a corporate treasurer is that a bank will provide 'appropriate' liquidity. The term 'appropriate' is all important as it relates to suiting the client's purpose with respect to both timing and structure, as well as to good advice about whether bank products are the most effective solution in all circumstances (when, for instance, the balance sheet may have capacity without further borrowings).

Yet appropriate banking advice of this nature is possible only if the bank has a full understanding of the business, which is, quite rightly, a further fundamental expectation of the treasurer.

A bank's understanding needs to be at three levels:

- There should be a full understanding of the sectors in which the company operates;
- There should be a deep and long-term understanding of the individual businesses of the company; and
- There should be a personal understanding of the treasurer.

Banks can only understand a business sector if they are sector-focused. They also need to mean it. Simply having one banker covering a certain sector for a few years before that banker moves on is not enough. A bank demonstrates its long-term commitment to a particular sector by employing dedicated sector experts.

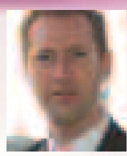
SECTOR EXPERTISE For example, our approach at Lloyds TSB Corporate Markets has been to subdivide the eight sectors we previously covered to create 18 sectors, deepening the expertise offered by relationship managers as sector differentiations become more specialised. Sector knowledge is key if a relationship banking ethos is to mean anything.

The retail sector is a good example of the benefits of such depth. As a sector, retail has not enjoyed the best of profiles in the past year or two. A number of well-known retailers have disappeared, while cost increases, price deflation and low consumer confidence have all sent negative messages to already nervous investors and lenders.

Yet sector specialisation allows a bank to look beyond the headlines and evaluate a sector the way a sector evaluates itself. For instance, many of the negative headlines about the retail industry are a result of like-for-like sales comparisons, which ignores the impact of price deflation. Also, little comment is passed on the sector's ability to maintain, or even increase, margins. And far from having a damaging impact on the sector, retail failures can have a healthy shakedown effect on the sector, with successful retailers capturing the turnover of the failures.

Indeed, viewing the sector's challenges as potential opportunities is a vital part of the sector-specialist banker's role. And any bank's commitment to the sector is most clearly demonstrated by offering consistent banking support to clients right through the economic cycle.

KNOW YOUR CLIENT Yet sector specialism is not enough. Also key



CORPORATE TREASURERS NEED THEIR BANKERS ALMOST AS MUCH AS THEIR BANKERS NEED CORPORATE TREASURERS. SO WHAT SHOULD THEY EXPECT FROM EACH OTHER? ASKS **GUY REEVES**.

is a deep understanding of the particular businesses that the relationship manager services. Again, this is based on depth of knowledge, which needs to be from the bottom up – covering the day-to-day cash management requirements as much as any strategic positioning in, say, the mergers and acquisitions market.

Each bank will have its own values for its relationship managers to follow, but taking the time to understand the needs of customers, being accessible and welcoming (which also means giving honest and straightforward advice), having the customer's best interests at heart, and offering the right services and products are fundamental.

Finally, a banker should have personal knowledge of each corporate treasurer client. This is not simply a question of knowing their birthdays and the name and age of their children – although there is nothing wrong with that. It is a knowledge of a treasurer's personal constraints – their risk appetite and ambitions, their view of the challenges and opportunities ahead, and the value they put on relationship and delivery.

Certainly, it helps my own relationship with retail sector clients that I am a member of the ACT. It gives me an insight into the mind of the treasurer and sociable access to many corporate treasurers in an informal but relevant setting, all of which increases my knowledge of what makes individual treasurers tick.

This final level of understanding is perhaps the most important when it comes to offering appropriate banking services and products. Not only should the banker recognise the important role personal experience can play in a client's view of financing instruments, it neatly dovetails with the expectations that a banker should have of a corporate treasurer.

THE BANKER'S TALE At a primary level, the banker expects the corporate treasurer to do nothing more than safeguard the bank's assets. Indeed, timely repayments with no covenants breached is pretty much the only thing a banker can demand. And with no certainties, bankers have to make their evaluation of clients' ability to

THE RECENT UPTURN IN INTEREST RATES SUGGESTS THE ERA OF CHEAP MONEY MAY BE COMING TO AN END, AND THE RELATIONSHIP BETWEEN BANKER AND TREASURER IS LIKELY TO BECOME EQUALLY IMPORTANT FOR BOTH PARTIES.

repay based on their understanding of their businesses. With retailers, for instance, bankers should be looking for strong management, a differentiated retail offering and a good track record in the business.

Yet a banker's expectations go beyond simply getting the bank's money back. True relationship banking is about supporting clients through the good and bad times, not offering an umbrella when it's sunny and asking for it back when it starts raining. It is also about proactively offering appropriate solutions and products that suit the client's needs and ambitions through the cycle. What the relationship banker expects in return is not above-market pricing. Indeed, bankers have become used to accepting pricing that is below water.

In return, bankers are looking for ancillary business – the prospect of offering a range of products that allow them to meet target overall returns for clients.

But while having an open ear to the range of bank products is important, treasurers should be able to place two important conditions on this openness. First, that the range of products are offered as appropriate solutions to specific requirements of the company – not as square peg solutions for round hole problems.

Second, that the banker has the appropriate range of products to offer. Many banks new to the UK market are queuing up to offer corporate customers sexy leveraged loans for mergers and acquisition activity, whole-business securitisations, initial public offerings or corporate bond issues. Even fewer are interested in the nuts and bolts of banking.

This is another facet of a good banking relationship approach. The bank should be eager to offer bottom-up services that take care of operational activities.

Any trade bank worthy of the name should have a vast array of cash management and transactional services and products. This can encompass virtual reporting, supplier finance, FX risk, trade guarantees, as well as more traditional products such as clearing. The challenge is to tailor product bundles for the client.

Yet strategic products are also vital if the client wants to grow or respond to market-led opportunities. And any bank offering a strong package of operational products will not want to be excluded from the higher earnings potential from products further up the ladder. In recent years, especially in the retail sector, the introduction of private equity activity has meant both a growth in merger and acquisition activity resulting in leveraged lending for vendor-led buyouts and in lending activity to retailers looking to sweat the assets through gearing.

Whatever the particular circumstances, it is clear that bankers need to have a sector-focused approach, to create long-term relationships and to have an understanding of the individual treasurer.

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