

Measure to manage



BANKING AND COUNTERPARTY RELATIONSHIP MANAGEMENT HAS GROWN IN SIGNIFICANCE SINCE THE GLOBAL FINANCIAL CRISIS ERUPTED. **STALIN SHANMUGHAM** EXPLAINS HOW UAE INDUSTRIAL FLAGSHIP DUBAI ALUMINIUM HAS PUT MUTUALITY INTO ITS PARTNERSHIPS AND IS MANAGING THAT MUTUALITY WITH AN IN-HOUSE BENCHMARKING TOOL.

Viewing banks and counterparties as valued business partners rather than simple service providers has been the foundation for the development and implementation of a banking benchmarking tool at Dubai Aluminium, a UAE government-owned aluminium producer. Dubbed the Quality Index, it lets the company interact with its relationship banks in a manner that is synonymous with our corporate treasury philosophy of security, liquidity, flexibility, diversification, yield and partnership. The development of the index was also an acknowledgement that the banking relationship cannot be properly managed unless and until it can be measured.

The index evaluates banking relationships by quantifying the quality of products and services offered by various relationship banks. The standardised metrics and analysis allow Dubai Aluminium to benchmark each relationship bank with its peers, and the resulting score is used to determine trade finance allocation, cash management services and ancillary banking relationships.

For the company's relationship banks, the index provides a qualitative measure of their performance as a business partner. It provides specific areas of improvement for the banks to focus on to obtain a greater share of treasury business, and also gives positive feedback in areas of exceptional performance.

As with any successful project, the key factors are understanding the end-goal and effective implementation. Accordingly, we took a structured approach to implementing this value-added tool, with the primary elements being:

- identification of key areas for evaluation, such as cash management, treasury operations, trade finance, etc;
- assigning individual weightings to these key areas – for example, 15% of the weighting was allocated to trade finance;
- collating qualitative feedback from the various teams within the business that interact with the banks, such as cash management, export trade, accounts receivable, treasury operations, and so on;
- collating the quantitative measures, such as loan pricing, bank charges/fees, and so on;
- agreeing and assigning a rating model: excellent (worth one point), good (0.5), needs improvement (0.25) and unsatisfactory (nil);
- compiling the scores and modeling the final rating; and
- holding face-to-face meetings with the banks to explain the concept and rationale, and then sharing the final index.

BY CREATING A UNIFORM, QUALITATIVE APPROACH TO ASSESSING THE BANKING RELATIONSHIP (WHETHER THAT'S IN THE CONTEXT OF SERVICE, PRODUCT OR PRICING), DUBAI ALUMINIUM CAN TAKE OUT THE "PERSONALITY" FACTOR AND JUST DEAL WITH THE FACTS.

WHAT DOES IT MEAN TO THE CORPORATE TREASURER? The principal business benefit of introducing the index is that Dubai Aluminium now takes an active rather than the traditional passive role in managing the relationship with its primary bankers. By creating a uniform, qualitative approach to assessing the banking relationship (whether that's in the context of service, product or pricing), the company's corporate treasurer and chief risk officer Toby Shore believes that Dubai Aluminium can take out the "personality" factor and just deal with the facts.

Shore points out that the index has also enabled Dubai Aluminium to build a stronger and more professional relationship with its banks on the basis of the construction of a mutual partnership and understanding underpinned by the index.

It also provides a valuable and transparent tool to guide the treasury team in bank business flow allocation – a vital ingredient for both the business and Dubai Aluminium's relationship banks in terms of pricing and yield. This, in turn, offers the advantage of matching the latest technologies, funding structures and other cash management solutions with Dubai Aluminium's requirements at the earliest opportunity.

WHAT DOES IT MEAN FOR BANKING PARTNERS? For the company's banking partners, the index provides a very tangible measure of precisely how Dubai Aluminium views their service offering, pricing and banking solutions. The interactive feedback sessions around each aspect of the index highlight areas for focused improvement and also those areas which are already performing at best-in-class level.

Because bank business flows are transparently linked to the index, each bank knows what sort of business volumes it can expect from Dubai Aluminium across the range of trade finance, cash management and financial risk management. As a result they can estimate yield and business planning and budgeting.

Similarly, the transparency allows Dubai Aluminium's relationship managers to manage expectations internally within their own organisations all the way through, where appropriate, to senior management.

For example, if a bank is looking to maximise its touch points with Dubai Aluminium, and thereby maximise yield, then it will have to improve specific focus areas. The discussions regarding business allocation thus moves from Dubai Aluminium and any focus on rates

What Dubai Aluminium's relationship banks say

Citi says: "We have found the Dubai Aluminium Quality Index to be a valuable tool in continually assessing our position as a core relationship bank of Dubai Aluminium. It provided us with specific guidance on the areas in which there is room for further improvement in terms of our relationship and the quality of our service/product delivery channels. Moreover, it provided a quantitative measure of what we as a bank can expect in terms of business flows, given our current and future positioning with Dubai Aluminium.

"We appreciate having this feedback metric in place, as it provides us with a benchmark and reference point to measure ourselves, both against our peers and vis-à-vis Dubai Aluminium's perception of its banking relationships."

And Standard Chartered Bank says: "The feedback shared with us earlier in the year and the presentation provided has been well appreciated internally and we have shared the same with key stakeholders and decision-makers in the bank. The transparency shown by Dubai Aluminium further reiterates the level of the relationship between Dubai Aluminium and SCB (and the company's other banking relationships).

"The feedback received also gave us a further boost to continue to provide our level of commitment to Dubai Aluminium and also to evaluate areas where improvement is required so as to improve the overall standing in future."



and yield to the bank in terms of its willingness to address the improvement areas.

THE FUTURE As part of Dubai Aluminium's future initiatives, we are in the process of upgrading our existing model by revisiting the qualitative questionnaires to remove any ambiguity and thus focus the answers and thereby the quality of the index itself.

Further, as our business requirements change along with the economic conditions, we are revisiting the weightings and have started a process of consultation about the appropriateness of the weightings with the various stakeholders in Dubai Aluminium who interact with our banking partners.

Analysis is also being done with the view to expanding the scoring model so that it supports five ratings rather than four.

We are also looking at ways in which we can make greater use of technology during the collation and gathering of the raw input data so as to ensure the consistency, integrity and timeliness of the responses.

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