BUILDING A BETTER RELATIONSHIP

FOR **PETER MATZA** OF RWE, CLOSER CONTACT BETWEEN BANKS' RELATIONSHIP MANAGERS AND CORPORATE TREASURERS IS KEY TO OBTAINING THE BEST SERVICE.

Although *The Treasurer* has asked me to respond to Johnny Cameron's paper[1], my remarks will be based on my own observations of corporate relationship banking rather than a direct point-by-point analysis. I will, however, pick up on some of the themes he raises in my comments. What I think is clear to all involved is the critical nature of the interaction between banks and corporates – of whatever size. What is not clear, in my opinion, is the manner in which different banks manage their relationships and seek to justify themselves to their clients.

In broad terms, I would suggest that the treasurer's view of a banking relationship is one in which he or she expects their bank to be consistent, transparent in its expectations of return, to be alert to changes in the relevant economic environments that affect the business and to have the ability to focus on the services in which value is added to its financial and business activities. In return, the treasurer should expect to be open about their requirements, to appreciate the constraints of capital cost on banks and their need for reasonable returns, and to ensure banks understand where they stand relative to the other service providers to the company.

ROLE PLAYING. For me, the most important element in these relationships is the role played by the relationship manager (RM). RMs should define the relationship for the bank and the company. Johnny makes the point that in the "universal" bank, it is not possible for the RM to know all the products and services on offer. My view is that this does not matter – at least partly because treasuries have developed their own skills and expertise – so that the RM's role today is to understand their organisation and its capability in the service offer. In my opinion, the RM should work more for the company and less for the bank. For me, this means they have, first, to understand their client and then be the client's representative in sifting through the bank's services, attempting to identify those that seem most suitable.

My experience suggests that because specialist product bankers rarely appreciate the overall position in a relationship, the RM must be involved in contacts at all levels, and in all disciplines, to ensure promised quality in the initial presentation and subsequent execution of business. This is true, however, for all the types of banks Johnny describes. The key conclusion therefore is for the treasurer to view the RM as an ally, not an adversary, in bringing together the bank and the company.

The recent skirmishing between investment and commercial banks has taken place against the background of all banks recognising the need, and the requirements of Basel II, to measure and value their capital. Johnny suggests that the investment banks somehow distort the proper pricing of credit and therefore fee-based services. However, I am not convinced that there would be 'fairly-priced' products, nor that any fees would reduce if we lived in a transparently-priced world, given the variety of measures employed, the diversity of results and the frequent misreading of risk and return by banks. I would also suggest that some commercial banks would be very happy to see the present system maintained, if only to disguise their own deficiencies in pricing and capital management. Treasurers may well play these tensions off between their different banks, but some caution and appreciation of both sides' perspectives is required.

MEETING HALF WAY. Johnny goes on to suggest that, perhaps, there is a 'middle-way' between the muscle-bound giants and the sharp suits of investment banking. Well, maybe there is, but I am wary. First, in his opening remarks, Johnny tells the story of how the bank provided its first overdraft based on the long-standing relationship with the merchant. In the modern world, that has become an assessment by a credit committee of risk and acceptable return. I leave it to readers to judge whether the merchant in 1728 would still get his money today, but I fear that, although likely, he would probably have to secure it, insure it and provide a five-year cashflow forecast. The difference is whether the bank seeks the security and the information after a positive lending decision, not as the justification for it.

Second, I am not wholly convinced that the synergies between corporate banking and financial markets are as comprehensive as suggested. To my mind, there is a considerable – unbridgeable perhaps – distance between the emerging markets bond trader, the trade financier and the cash transmission manager and managements' understanding of the potential value each has to generate for both bank and customer.

BANKS COME IN ALL SHAPES AND SIZES. Treasurers will need to do their homework to ensure they have sufficient breadth for all the services they require. For me, the most intriguing comments in the paper concerned the cross-border developments in relationship banking. I think Johnny is spot-on in identifying the reassessment by companies of their bank relationships beyond a domestic context, with particular regard to the loosening of traditional cross-shareholdings between continental European banks and their customers. Although not universally acknowledged, I would argue that at least part of this has come about through the efforts of investment banks 'picking off' weak domestic competition in financial markets, particularly following the introduction of the euro five years ago. However, for me, it is not the capability of the international bank in the capital markets that will govern its new relationships, rather the ability of its RM to cross any cultural or technical borders in delivering the bank and its services to the new market – credit alone will not produce the returns sought. This reinforces the need for close contact between the RM and the treasurer.

This is not an argument for a standard approach – far from it – and it is certainly true that today's banks are prepared to engage with customers and respond to their views. However, I find that, in conversations with my fellow treasurers, the jury is still out on whether banks are learning the lessons of consistent relationship management.

Peter Matza is Senior Manager of Corporate Treasury at RWE AG.
peter.matza@rwe.com
www.rwe.com

[1] Johnny Cameron's article 'A good way to do business' was published in the December 2003 issue of *The Treasurer*, p15, and was based on his ACT Autumn Paper. If you would like to put your view on relationship banking, whether through a letter or as an article, please email Mike Henigan at mhenigan@treasurers.co.uk.