CASHING IN ON BANKING RELATIONSHIPS

MAKING THE MOST FROM YOUR BANKING RELATIONSHIPS IS VITAL WHEN IT COMES TO EFFECTIVE CASH MANAGEMENT, SAYS **PETER HAZOU** OF HSBC.

By what measures should a corporate treasurer decide on the best bank to use for cash management? The answer lies in the basic working definition of cash management (CM), which is at the heart of the banker-client relationship.

Cash management can be seen as a corporate current account, boasting a full menu of available options. At its most basic, it provides the routine – wire transfers, collections and cheque writing. On the more sophisticated side, it incorporates provisions for global liquidity management and the custom-tailored services developed by the treasurer and his/her banking partner.

A corporate treasurer always needs to ensure that his CM solution offers 24x7 reliability. He/she must also make sure that his/her banker appreciates that CM is the lifeblood of their organisation – liquidity, the proceeds of sales, routine and strategic purchases, benefits paid to employees and so on. For banks, meanwhile, payment and collection flows are a distinct line of annuity business that underpins the development of a broader client relationship that may include lending, treasury dealings, capital market activities and other financial service product lines.

BANKING RELATIONSHIPS. In recent years, there has been a revolution in the relationship between treasurers and their banks, with a number of factors playing a major part in its reshaping. Chief among them is the role of the corporate treasurer, which now reaches well beyond balance sheet management. It also includes such diverse elements as the impact of IT as a driver of the supply chain, the evolution of organisational structures, the trend toward outsourcing of non-core activities and the shrinking business world.

A good banker can assist in these arenas and prove an invaluable asset by exploring and growing the relationship, fine-tuning the routine and developing bespoke products. Here the real choice begins. Though somewhat cynically called a 'beauty parade' or denigrated as not much more than a bottom-line process, there are myriad elements in the processes by which corporate treasurers select banks as their operating partners. To go for the most important, you must start with people but other things are important too – IT, for instance.

Teaming – getting the people right – requires a meeting of minds between a treasurer and his/her bank at both an individual and corporate-cultural level. As partners, both parties must listen carefully to each other, understand each other's situation and have the personal drive and organisational backing to implement solutions and improve processes. Market-speak and sloganeering are never sustainable over the long term. Follow-through, escalation, implementation processes and feedback loops have more staying power.

VALUE FROM COLLABORATION. For corporate treasurers, it is vital to ensure that their banks' relationship manager and product sales specialist play critical roles in navigating the inter-organisational terrain to ensure that maximum value comes of the collaboration. This process begins with a careful and detailed analysis to identify underlying drivers and apply creative solutions. This must be an ongoing process, and its quality will determine the benefits derived.

The process must have depth as well as breadth. Treasurers must ensure that rather than receiving a service that resides only in the customer-facing front office, that their banks provide service for all the functions involved in delivering service, including the hierarchy through which unresolved issues get escalated and collectively dealt with.

No bank – not even the biggest – is perfect. Things can and do go wrong and getting the right people and technology does not guarantee perfection.

Along with the immediate fix – for example, getting the right payment to the beneficiary as soon as possible – treasurers should look for organisational responsiveness to the internal feedback loops by which a bank learns from its experiences. How well a bank's departments share information on customer satisfaction issues is vital to the service provided to you.

As the decision maker, the corporate treasurer also needs some specific answers to well-directed questions. Does the post-implementation review drive further product development? And if so, what is the process by which he/she should drive such development? Should his/her service inquiries force improvements in the way the underlying transactions are repaired and processed? And should the treasurers' experience drive further sales discussions that will benefit both parties? Such connections will help form durable partnerships.

In advance of finally awarding the business, implementation plans should be examined in detail. Roles and responsibilities should be discussed and specific 'what-if' scenarios played out until both teams are fully satisfied and secure in the knowledge that the people involved will deliver on the promise.

The multi-task exercise that the corporate treasurer and his/her team have in picking the right bank in light of these and other issues is a complex process. It involves a delicate balance between many objective and subjective assessments, but once done and, we all hope, done well, the pay-offs in time, trouble and cost savings will prove worth the concerted efforts of all involved.

Making the relationship last means dialogue, and lots of it. Formal processes – the request for information (RFI), the request for proposal (RFP), third-party procurement searches – can and will enhance the flow of information, but none should act as a substitute for the face-to-face dialogue through which problems are understood and solutions sought and implemented.

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Key issues in cash management

There are a myriad of elements that treasurers must take into account when selecting a banking partner for their cash management. These range from relationship, price, product proposition and the impact of regulatory changes, to how best to balance outsourcing against a proper focus on core competencies. The European-based corporates of today face specific challenges which impact their cash management strategies:

The euro They must take advantage of the momentum that began and continues with the introduction of the euro. Corporates and banks can work together to influence the tax, regulatory and legal effects – but it is up to corporates' banking partners to come up with solutions. Whether or not countries on the fence – i.e. Denmark, Sweden and the UK – opt for the euro is likely to remain open for some time to come.

EMU Though we are still fair distance away from complete harmonisation, Europe needs a single market in payment systems to support full economic and monetary union, while at the same time allowing pan-European trade to flourish. The Single European Payment Area (SEPA) is the most prominent single approach to handling payments.

European accession The economics of Europe, not to mention the EU, will see dramatic change with the addition of 10 new member countries. They can be expected to take one third of EU budgets and grow their economies in the way Ireland, Spain and Portugal have in recent years.

Industry standards Global banking is changing and a noticeable element of this has been the harmonising of diverse systems and infrastructures. That said, many organisations believe banks do not move quickly enough and it remains difficult to get agreement across all banks because of the variety of players, legacy systems, regional considerations and so on.

Regulatory changes Corporate governance, European Central Bank and European Payments Council matters, International Accounting Standards (IAS), company credit ratings and other regulatory changes are also very important. For example, regulatory changes are under way that could have a major impact on pooling products. Cash pooling products currently used all allow banks to set off balances held on customer accounts for the purposes of interest calculation, and all products rely on the ability to report net for regulatory reporting purposes. However, it is not clear whether this will continue under Basel II, and banks could incur a capital adequacy cost that would render such cash management products uneconomic.