REWARDING RELATIONSHIPS

It is essential for treasurers to communicate honestly and openly if they want to get the best from their banks, argues Sarah Boyce

A bank group should have a footprint (both product and geographic) that meets the needs of the organisation. So an ideal relationship bank will need to be able to:

- Act as a trusted adviser;
- Provide solutions tailored to the requirements of the company; and
- Offer support in challenging times (often at short notice).

But in order to do all of the above, the bank must understand the business.

Meanwhile, treasury needs to ensure that it has oversight of all the bank relationships across the group. This can be relatively straightforward in a small or highly centralised group, but in a more international or decentralised organisation, local businesses may be using a large number of banks without treasury being aware.

Irrespective of the size of the bank group, there are certain key considerations when managing any relationship:

1. Mutual respect and openness

a) Spend time ensuring that banks understand the business as much as possible – not only does it strengthen the relationship, but it will assist the relationship managers when they are having internal conversations.
b) Understand your bank as far as you can since each bank will have different strengths and weaknesses – their objective is to make a profit from the relationship, so understand their key drivers.
c) Treat them as a valued business partner, rather than as a vendor, and focus on establishing a mutually beneficial relationship.
d) Be aware of any possible conflicts of interest. A register of all interactions between the bank and the organisation should be maintained to ensure that no undue influence is being exerted by either side.
e) Be as open and honest as you can be, and demand the same from your bank.

2. Clear communication

a) Help your relationship manager to manage their internal relationships – banks frequently operate in silos, much like corporates, so the messaging must be clear (and may need to be regularly repeated).
b) Hold regular meetings. These can be one-to-one, but it is also good to arrange wider debt investor meetings, which all banks in the relationship pool can attend together (for example, following public announcements such as the annual results). Debt investor meetings are a popular solution to ensure that banks get information in a timely manner and have access to senior managers (in a way that is efficient for management).
c) In addition to formal meetings, other opportunities, such as factory tours or visits to sites, will help the bank to understand the business.
d) Don't forget that although a bank will speak to the treasurer and FD formally, it will also talk (possibly much more frequently) to other members of the treasury team, trade finance users and many others in the company, so the entire organisation needs to be 'on message'.
e) Be consistent in your dealings with the banks – banks hate surprises.

3. Monitor and report performance – using both qualitative and quantitative measures

a) Qualitative measures will vary between organisations, but may include security of the counterparty (measured by their credit rating, credit default swaps spread and as much market awareness as possible); flexibility to respond to the needs of the organisation; the range of products offered by the bank and their relevance to the organisation; and the extent to which the bank footprint overlaps with the organisation.
b) Implementing quantitative measures can be complicated and many corporates don't try to measure their relationships in this way. But identifying share of wallet can be relatively straightforward to calculate within a treasury management system and electronic dealing platforms can refine data related to deals won and lost – which will help to identify any ongoing pricing issues.

Arguably, bank relationships are more important than ever to corporates as liquidity is scarcer and banks have become more selective as their balance sheets are squeezed by increased regulation and historic losses. Therefore, spending time on establishing and maintaining bank relationships is essential.

But it is worth remembering that even if you develop strong and enduring relationships, bank strategies may change (and your relationship manager may not have any influence over the outcome), which may result in a bank entering or leaving some lines of business and geographies. Therefore, however strong the relationship, it is always prudent to have a fallback plan.

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