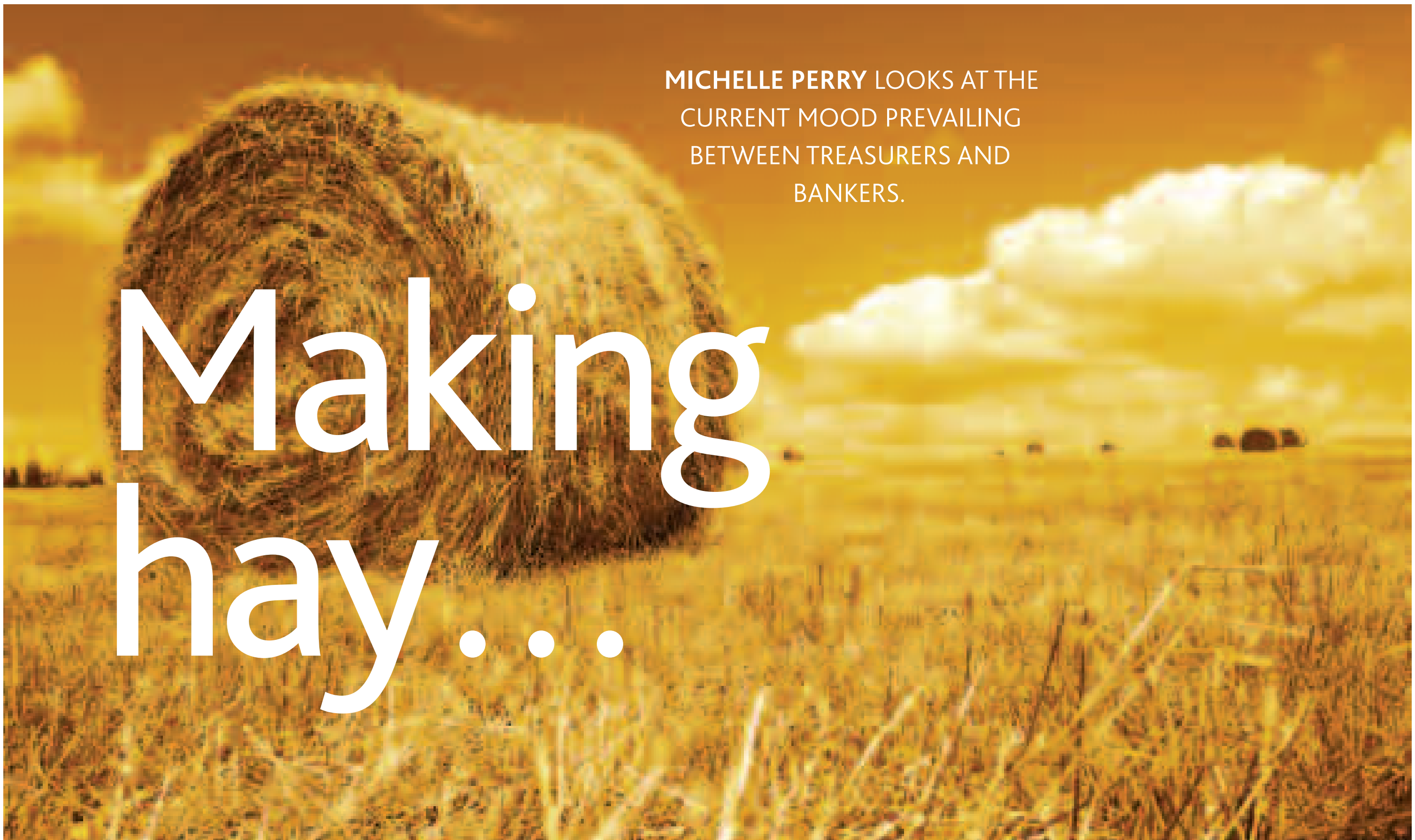

MICHELLE PERRY LOOKS AT THE CURRENT MOOD PREVAILING BETWEEN TREASURERS AND BANKERS.

Making hay...

Relationships between treasurers and banks have always been fraught and cyclical, but technological advances and mounting pressures on bankers for higher yields and treasurers for more attractive pricing means that the years ahead will be no less difficult.

The current economic environment leans in favour of corporates, but as most of those with long-term memories will know, that situation won't last forever. The banking sector is currently broad and deep, allowing treasurers to play the field to get the best pricing in their transactions.

CONSOLIDATION But there are concerns about further consolidation in the banking sector and the ability of banks to continue offering attractive packages to corporates.

"It's a good time at the moment for corporates with cash, as banks are looking for assets," says one Group Treasurer at a leading UK plc. "Corporates are making hay, with banks being so competitive at present. Pricing has improved substantially.

"But there are concerns that the market is going too far, too fast. Hopefully, banks are keeping their heads. I don't want them writing too much business and then reversing the trend in a few years."

Consolidation is in the forefront of many treasurers' minds, and most are conscious of the need to spread their business around. It is an issue that is keenly acknowledged by Angus MacLennan, former chairman of the Association of Foreign Banks and former General Manager of the London branch of Danske Bank, which had to pull out of London this year.

"More and more banks will, in an accelerated way, be questioning their need to do the things they do," he says. "Consolidation will speed up. Corporates can pick and choose at the moment and that will cause some banks to pull out, as the big get bigger. It will become a problem."

MacLennan predicts that banks will keep home-based activities, particularly retail, but will question wholesale corporate banking.

"Less-rated banks will end up paying more for funding or capital. And they will have to pass that on to the current market. If they can't do that they will have to absorb the costs or pull out of activities where they can't afford it," he says.

LONG-TERM COMMITMENT Still, the banker says it's not all about pricing and execution. "Ultimately it's a question of people and institutions. If you get on with people and trust them, you will continue that relationship.

"Long-term commitment offers banks the ability to continue doing what they're doing. And it's reasonable for treasurers to seek

Executive summary

- Consolidation in the banking sector is an issue of concern for treasurers.
- Treasurers need to consider the relationship with banks, especially long-term commitment. There is always the need to balance the short term and the long term.
- Banks are carefully analysing the value of their relationships and concentrating on fee earning rather than lending.
- The changing relationship with the banks alters the relationship between the treasurer and the rest of the senior management.

assurances that their supplier is in it for the long term and not just the short term. It's about people when you strip it all down."

The challenge for bankers, however, is how frequently a corporate goes to the market. This is often the main cause for conflict, according to treasurers.

"The main issue for us is the short termism," explains the Group Treasurer at a FTSE 100 company, who prefers to remain nameless. "We want to adopt a relationship approach so that the banks will be with us through thick and thin. If a bank specialises in cash and we don't issue anything for months, then that's a challenge for a bank. If you are an infrequent user, then you are less attractive to all banks."

It's an issue that Ian Clark, Senior Manager in Treasury Solutions at PricewaterhouseCoopers, also raises.

"The trend now is to go back to relationship banking," he says. "Our clients are trying hard to redefine relationship banking in that they don't want banks to have all the business and charge what they like for the work."

Clark says what is noticeable at present is that banks are analysing the value of their relationships, despite the current environment favouring corporates, and aren't afraid to tell a corporate to go elsewhere.

Still, banks are playing the relationship, too, understanding that a particular transaction might not earn them a significant amount, but if they support the company in the short term they will reap the rewards in the long term.

Relationship banking has significant benefits on both sides, particularly with the trend for bankers to become more involved strategically with a company. Increasingly, say experts, there's a trend for chief executives and finance directors to become more involved in the banking relationship, traditionally the preserve of the treasurer.

WIDER PERSPECTIVE This shift however has left some treasurers disgruntled.

John Hawkins, former Head of Finance and Risk at Invensys, says: "There continues to be a fundamental change in the way banks are doing business in concentrating on their return on risk capital. At the top of the list is that banks want to make available fee-earning services rather than lending. The natural inclination is not to lend but to advise – for example, on M&A. Many treasurers aren't in a position to divert money away from other activities. Banks are spending time getting into the pockets of FDs, and some treasurers are put out by this."

Clark, however, doesn't see this as a negative. "Now we see that general management are getting more involved because banks want a wider perspective. I don't think it does any harm at all to treasurers' positions.

"I don't see it as a bad thing. It may be bad for those that have a rigid view of what treasury should be. But if treasurers focus more on the strategic side, they will then become part of that quartet with the CFO, CEO and the board. I see it as a significant opportunity for treasurers to up their role."

Despite banking consolidation having slowed down a little, we are not out of the woods yet. Corporates and banks should brace themselves for the inevitable cyclical change.

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