A two-way street

SANTANDER'S **STEVE PATEMAN** LOOKS AT THE IMPORTANCE OF TAKING A RELATIONSHIP-BASED APPROACH WITH BANKING PARTNERS, AND WHAT BANKS LOOK FOR IN A CLIENT RELATIONSHIP.

"As in all elements of life, relationships are a two-way street. Banking relationships are no different and they can't work unless there is a mutual understanding of agreed objectives. Over the last two years many treasurers and finance directors have experienced a disconnect between what they were trying to do and what the banks were wanting to do.

In some ways this is understandable. The pressure on banks' balance sheets, allied with understandable concern over the increased risk of investing, meant banks were seeking to contain lending activity. But that was at the very time that businesses were seeking long-term support and did not want to focus on funding that would run out in three or six months' time.

Going forward, both bankers and treasurers need to be open and straightforward, with both sides clear on their respective expectations and goals.

The best relationships between bankers and treasurers or finance directors begin at the strategic level. If the bank can participate in a conversation with the business at a senior level, looking at the company's strategy, its plans for the next two or three years and the related opportunities and threats, then for the relationship manager that is the best basis for working together.

Bankers become uneasy when they are asked at the last minute to fund a deal or project when they know the business must have been working on the idea for some time. In particular, credit committees know when the relationship manager has been bounced into taking a proposal to them at short notice and they don't respond well to that. The bottom line is that smart banks want to know what a business's long-term plans are, and surprises undermine relationships.

In my experience what treasurers and finance directors want in return is a bank that shows real interest in their business, one that asks questions. At the start of my career I recall a FTSE company turning to one bank in clear preference to a rival institution to help it complete an acquisition, which kicked off a long run of success. Why? Because it had a clear idea of which bank it could rely on to help execute its plans, and it chose the one that best understood its strategy and its business. When the moment of opportunity arrived, the business did not have to go back to chapter one; instead, the bank could hit the ground running to help complete the deal. The lesson has stuck with me ever since and it seems as relevant today as in years gone by. And that surely is the essence of a good bank/client relationship: knowledge and trust built up over time to ensure that both sides understand what can be achieved.

Prior to the credit crunch it is probably fair to say that banks had become too interested in who was on their client list, the deal flow, league tables and cross-sales. We all saw how things went wrong with such a one-sided approach. The financial crisis ushered in a time when many treasurers and finance directors had difficult experiences with banks: in some cases a change in strategy at the bank meant breaking off the relationship altogether. Even those banks that were still open for business were asking for a big premium and a level of control that left many businesses understandably nervous.

Perhaps most irritating of all for treasurers and finance directors was the short-term nature of the support on offer. Three-year deals mean that after just 18 months the attention has to turn to refinancing, which is pretty well the opposite of what finance directors are seeking: a robust and secure capital structure.

In terms of that capital structure, after the rollercoaster ride of the last 24 months, it is clear that bank finance will continue to sit alongside capital markets. Capital markets should continue to become deeper and offer greater liquidity to a wide range of borrowers. However, bank finance will play to its traditional strengths, offering flexibility with an ability to be accessed as required. As such it will remain a key element of both working and balance sheet capital.

The next decade is likely to see a smaller number of banks participating in the market and that will mean treasurers will deal with a smaller banking group. Further regulatory changes to capital and liquidity will impact the costs and structure of lending. However, by working together to create balanced funding solutions, banks and their customers can remove much of the volatility that has characterised the market and destroyed economic and shareholder value.

If there is one positive to come out of the last two years it is the renewed sense that companies are seeing their banks as long-term investors in their business. Treasurers and finance directors should want more from their banking relationships. If they can rely on banks as they rely on other types of investors, it should be possible for both sides to work together to create stable conditions over the long term that will drive the economic growth that we all want to see."

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