Ask the experts:

A question of trust

Is the credit crunch changing the treasurer/banker relationship? Two treasurers, Gary Slawther and Ian Weldon, ponder that question while financier Jon Norton looks at how the bank/treasurer relationship has changed over time.

Jon Norton, Director of Structured Finance at Burdale Financial (a member of the Bank of Ireland Group)

There has never been as much pressure on banks to develop sales and income.

In my opinion, the role of the relationship manager has changed over the years as the merchant banks and investment banks have sought to diversify their roles from merger and acquisition (M&A) advice and equity into the credit and treasury products which the commercial banks have traditionally offered.

To understand the changes, it's worthwhile doing what the City does best and that is to follow the money. Although definitions vary, it is generally though that relationship managers divide into three categories. In order of increasing remuneration they are:

- Traditional, credit-led relationship managers, whose prime skill is in originating loans with some cross-selling of simple products (such as money-market and foreign exchange, clearing, and so on). They tend to be service-driven and often have a geographical specialisation. Most treasurers like a few of these in their bank group.

- Hybrids, who share many of the same characteristics as traditional relationship managers but work in a multi-product bank and have had considerable experience and training for up-tiering and cross-selling. They tend to be solutions/revenue-driven.

- Investment/senior bankers, who target the finance director as well as the treasurer. They are equity/M&A-driven and are also very comfortable with the debt and hybrid products, although they would probably struggle with a cash management problem in Hungary!

The relationship manager is the company's advocate in the bank and nowadays probably doesn't have control of the loan product, although usually he or she would have some say in whether the loan is retained or sold on. Relationship managers are constantly under immense pressures from product specialists for access to clients. The best can filter these appropriately, but junior or less experienced relationship managers find the pressure less easy to resist, resulting in potentially wasted time for clients.

The view of a client by banks will vary over time depending on how returns are measured as models change. More senior or strong-willed relationship managers may be able to override a model which shows a client to be a value diluter, which makes it important for corporate treasurers to assess how they are perceived within the bank and their value to them.

Many banks also undertake wallet-sizing exercises to assess how much of a client's business they are getting. There is enormous pressure on relationship managers to meet budgets, which can conflict with the concept of best advice, although the most senior and experienced should understand that the client relationship is for the long term.

Gary Slawther, Group Treasurer (formerly Jarvis)

It is said that banks have long memories. I think it is equally true to say that corporates and treasurers don't forget. If banks can remember which corporates landed them with losses, then equally treasurers can remember who stuck by them when the going got difficult. When the liquidity-going get tough, treasurers find out who their banker friends are. At the heart of the issue for corporate treasurers, it is all about trust.

If I as a corporate treasurer tell a banker that the business will pull through given the right level of support and backing, then to a large extent I would expect the banker to back my judgement. I would certainly remember those who do. I have seen various banks pull facilities, including two banks who withdrew all their clearing facilities at extremely short notice. All that the company I was then with had in terms of banking facilities was manual cheques, Chaps (Clearing House Automated Payment

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System) payment, and an electronic bank transaction reporting system. It made doing business difficult, to say the least.

What has always amazed me is the banks that decide to cut the relationship even when it is clear the prospects for the business are improving. When looking for alternative sources of funding, I remember speaking to one Swedish banker who told me that banks in his country tended to keep faith with corporates that had been through a bad time. Their thinking is that having supported a company in the bad times they wanted to maximise their chances to recoup their losses when the better times arrived. That enlightened attitude may work in places like Sweden or Germany, but I'm not sure it's the overriding philosophy in the UK.

You would think that all business decisions would be taken with the head and not the heart. But I have been surprised at the emotion that banks can display when dealing with their corporate customers. A long-standing relationship with a finance house that provided asset-based financing was ended when they were acquired by a bank that decided it did not want any business relationship with the company where I was treasurer. This was despite the fact that we had been good customers, we had never defaulted, always paid on time and to the best of my knowledge had a good relationship. As far as I could see, head office took an emotional not a rational decision.

The relationship between bankers and treasurers is a crucial one and over time it should be a win/win. I've just started at SpeedyHire and it will be interesting to see how bank relationships work out. I am looking forward to making new relationships and renewing some old and trusted contacts.

Ian Weldon, Group Treasury and Tax Director, FirstGroup

The short answer is "probably yes". The credit crunch is indeed changing the banker/treasurer relationship.

The precise effects of the crunch on that relationship will largely be driven by lender/borrower-specific issues. Lending relationships that continue on renewal will probably do so after challenging discussions.

Based on developments so far, corporates that have well-structured bank groups built on sound principles and excellent relationships should not be affected in the short term in the context of their capacity to borrow money.

But cost and terms could harden for new money, although treasurers can avoid or mitigate these impacts.

Some banks may deteriorate even further in the near future, forcing them to reduce their lending capacity further and require higher returns.

Experienced treasurers will be prepared to deal with this situation. There is nothing new here; it has happened before and can happen again. However, we must concern ourselves with the possibility of a very sharp overall contraction by the bank market towards refinancings.

In that context, those corporates which have pursued a diversified proactive funding strategy to reduce reliance on bank lending should get through this situation without material impact to shareholders.

Other matters such as a weakening economic environment and uncertain outcomes from regulatory impacts (for example, Basel II) could bring complications, but these may be secondary effects only should the underlying bank sector deteriorate generally.

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