CHANGE AND CONVERGENCE CONFERENCE

5 OCTOBER 2001 SPONSORED BY AIRMIC

(Left to right) Philip Thomas and Anthony Stern of Six Continents and Ian Chapman of Zurich

The high attendance and buzz during the day reflected the topical nature of the subject and the thought provoking talks. This was the third conference in the series of joint ventures with AIRMIC (the Association of Insurance & Risk Managers). A record 75 people attended – importantly an equal mixture of treasurers and risk managers.

Anthony Stern and **Philip Thomas**, Presidents of the ACT and AIRMIC respectively and both Directors of Six Continents Plc, shared the Chair with great effect. The conference was started for real with a fascinating talk by **Anthony Hilton** (City Editor of The Evening Standard). The first section focused on the impact of 11 September, and why uncertainty will remain for some time to come. Reasons included: the wide impact of the fall in the US stock market and the perception that risk really has increased; European leaders, including Blair, working close to Bush to 'hug him to death' to limit his ability to retaliate immediately and settle old scores (a wonderful image!); and the limited asking of 'why us?' meaning the ideological issues have not been addressed, so even if Bin Laden is removed, others may follow him. Moving onto the impact on the insurance market, Lloyds will survive – there is no crushingly urgent need for further capital as the market will recoup the losses in a remarkably short period – particularly given the increased premium to be charged. There is no spiral – as reinsurance is spread wider than before. These events may even be the trigger to push through further reforms. Looking to the current problems in the insurance market – Government support can only be temporary. Finally considering alternative risk transfer – the development and attractiveness of which depends on a number of factors including the price of re-insurance cover, the need for a defined event and the supply of deals. The market will grow significantly but will remain small for some time.

Gerry Salkin followed, known to many of us from his years of work in the treasury world, Gerry had two clear messages – one being that the treasurer's role is changing from that of steward to that of risk manager. This will require an intellectual upgrade and more mathematics (put simply!). His second point was that businesses will move from being driven by tangible assets to intangible assets – which will result in valuation by real option theory pricing. Value will be created by flexibility and the ability to change in a changing environment. Treasuries will need to work with businesses to build flexibility into contracts and business whilst reducing the capital required. The final financing of the individual assets being discrete and enabling greater gearing.

Ian Chapman, of Zurich Corporate Solutions then talked about enterprise risk management (the real ERM) – and the benefits of combining financial and traditional insurance risk management. Moving from silos to ERM will enable companies to move to the efficient frontier of risk and return. Christine Whitehurst of Zurich IC Squared developed the theme around the balance of risk and return. Are some risks over hedged, whilst others under hedged? Can you realign your capital to balance this and improve the overall ERM?

Mike Northeast of Kuwait Petroleum International Ltd then gave two interesting and vivid examples of the value of integrated risk management in the real world and emphasised the importance of a pro-active approach. Sharing his experience enabled us all to learn.

Tom Skwarek of Swiss Re New Markets then took us back to new frontiers with the introduction of insurance markets as substitutes for equity or debt markets. Structures allow a match of the capital against the risk, can come into effect when other forms of finance are falling away and are there for the long term. Committed long term capital solutions (CLOCS) have been called 'make my day money'. They must be worth a look!

Praveen Sharma talked about the key issues and changes relating to the integration of capital markets in the accounting and tax world. A topic that can never be ignored, particularly with the changes currently proposed in these areas.

Chris Mundy, of Marsh, focused on their recent research with the strong message that pre-loss risk management is of vital importance to surviving a catastrophic event. Insurance, unfortunately, is not the only answer to surviving such a disaster.

Philip Thomas then completed the day with a look at how he and Anthony Stern really work together, highlighting a number of areas where 'joined up solutions' really can add value. **EMMA BURNHAM**

THE BASICS OF... LOAN COVENANTS

UK corporate treasurers can expect tougher loan covenant negotiations with banks as the global economic environment worsens and credit departments reassert their influence over relationship managers within banks. At the Association's Basics of Treasury Documentation event on 27 September, **Christopher Jolly**, Head of Corporate Banking at Commerzbank, told delegates: "Banks are getting tougher on covenants as we move into hard times."

BANKS' INTERNAL POWER STRUGGLE. According to Jolly, we are now witnessing a cyclical shift in the balance of power from relationship managers to credit departments. In the good times, said Jolly, the relationship manager holds far more sway and can often overrule internal guidelines relating to covenants. "However, with debt defaults on the increase and a global downturn upon us, the relative strength of credit departments is now increasing," said Jolly. "This shift has been accelerated by the recent terrorist attacks in the US as well as the Marconi case," he added.

Commerzbank, with an exposure of €350m, was one of 14 banks to be left red-faced after not imposing covenants on a £2bn credit facility for Marconi in April. However, because the credit facility lacked any covenants linked to the company's credit rating, Marconi will pay just 40-45bps (priced when it was rated BBB+), rather than the 100+bps which would be more suitable for a junk-rated company. As such, the banks stand to make a significant mark-to-market loss on the transaction.

"The Marconi case is now focusing the minds of credit committees," said Jolly. A relationship manager at another leading German bank told bfinance that contact with his bank's credit department was characterised by love and hate. "While the relationship manager tries to generate the highest return for the bank on any transaction, the credit department wants to limit its risk," he said.

"In the past, relationship managers have been able to win more arguments, but over the course of this year, credit departments have become more powerful," he added. However, like Jolly, he emphasised the cyclical nature of such a trend: "The same situation happened in the early 90s, but by 1995-96 covenants had fallen away again."

LOWERING DEBT, RAISING INTEREST COVER. Traditionally, the covenants insisted on by banks for all but the very best credit risks include maximum gearing, minimum interest cover, and tangible net worth (TNW). In recent years, however, as banks have focused more increasingly on a company's cash flow, the net debt versus EBITDA covenant has replaced TNW.

"In the good times, banks will generally ask for two-times interest cover, but now a minimum of three-times interest cover is more likely," said the banker: "And a few years ago, corporates would have been looking at getting away with net debt four to five-times greater than EBITDA. Now, however, banks will insist on closer to three times EBITDA." Another covenant that might have been waived by banks in better times is the minimum disposal clause that governs assets a company can dispose of without consulting the banks. "Borrowers, however, will want to retain full control over how to utilise the proceeds of any sale, but when negotiating in the current environment, the ball in definitely in the banks' court," he concluded. **JAMES WHITWELL, bfinance**

TECHNICAL MOVES

Helen Wilkinson, formerly Group Treasurer of Coca-Cola HBC, joined us on 18 September as Technical Director. Helen has also worked at GE International, PwC and Citibank. She is MCT-qualified (by exam) and is working on a three-day week basis until commencing her maternity leave at Christmas. She will be returning to work in May/June.

Sheelagh Killen has verbally accepted the post of Technical Officer. This is a full-time post and Sheelagh will start in mid-December after completing her MBA at Trinity College, Dublin. Sheelagh is an ACA and AMCT qualified, she hopes to take MCT in Oct 2002. She has previously worked as a Finance Manager for the treasury department of the Halifax and also in the Global Emerging Markets section of Chase Manhattan.

Caroline Bradley left the Association at the end of October.

ON THE MOVE...

- **John Peter Dignum AMCT,** formerly Director of IT at Bankgesellschaft Berlin AG has been appointed Director of UK Operations at MiNC Property Enterprises Ltd.
- **Peter Graham AMCT,** has joined Nestle UK Ltd as Assistant Group Treasurer. He was previously Group Treasurer at Dyson Ltd.
- **Fraser Green MCT,** previously at ICL plc, has moved to The Royal Bank of Scotland plc where he is Treasury Risk Manager, Agency Treasury Services.
- **Richard Hindle AMCT,** previously Director of Tax & Treasury at Madge Networks Ltd has moved to Wagon plc where he is Group Tax & Treasury Manager.
- **Richard David Smither AMCT,** has been appointed as the Lehman Brothers' Director of European Credit Risk Management. Richard joins from Deutsche Bank where he was Vice President.
- **Paul Tydeman AMCT,** previously Treasurer of Equant NV has moved to Memec Group Ltd where he is Divisional Treasurer.

Send items for inclusion to Nicola Harvey, or email to **nharvey@treasurers.co.uk** (including daytime telephone number). Members are requested to inform the Association of a change of job or address as soon as possible. The Members Directory online means that all members can access up-to-date contact details at any time.