IAIN BOOT OF THE ROYAL BANK OF SCOTLAND LOOKS AT HOW BANKING THROUGH REGIONAL CENTRES ENABLED TO

REGIONAL CENTRES ALTERNATIVES

Thirty years ago, corporate treasury operations were located in offices all over the country and bank relationship managers were there as well. With the development of the computer, the volume of financial transactions soared and cost was greatly reduced by economies of scale. As a result, some financial service providers concentrated their operations, and expertise, in London whereas other banks decided to keep a decentralised approach to business. This article looks at these divergent strategies and how regional financial centres are positioned today.

WHAT DOES A COMPANY WANT FROM ITS BANKING RELATIONSHIP? Some might think in terms of products: credit lines, international payments, short-term investments and the like. Others might think in terms of specialised financial consultancy services such as foreign exchange and interest rate risk management. Whatever the product or financial services needs, one wants a relationship that can add value to your business and can be relied upon. The corporate customer approaches these issues from its own perspective and in these changing times it is useful to examine its banking relationships and determine how it will maintain, alter and select its relationships in the future. Banks must analyse the same issues as this is, in essence, deciding on what competitive strategy is needed to be successful.

Over the years, different banks have tried different approaches to organising their business and have borrowed from and developed each of these different strategies.

Three decades ago, banking revolved around the local branch and managers focussed on the companies in their geographic area. However, two major events in the 1980s led to a fundamental change in many banks' competitive strategy. First, the volume of financial transactions was increasing greatly and, with the advent of newfound computing power, the unit costs of these transactions could be dramatically lowered by large scale operations. This led some banks to centralise operations and expertise.

The other issue of the 1980s was the 'Big Bang' that attracted many foreign banks to the UK market. As these new players were mostly interested in the largest corporates and the transaction volumes they offered, they restricted their presence to London. As a result, net investment by the banking industry as a whole concentrated on the London market.

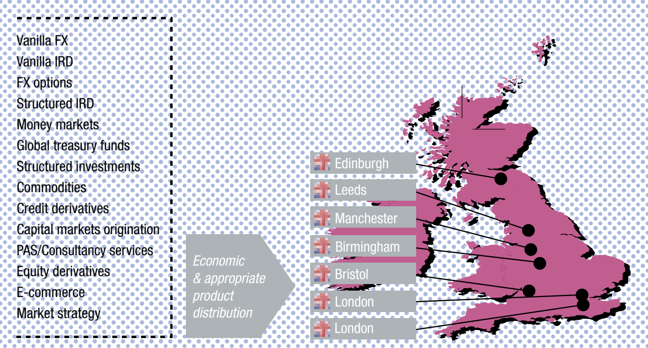
Not all banks elected to follow the market trend to centralisation of treasury operations, choosing instead the option of maintaining a sizeable presence throughout the country and ensuring that the centres had the ability and authority to deliver the full range of financial markets products. With their merger yet to take place, The Royal Bank of Scotland and National Westminster Bank took this route, a strategy that has continued to the present day.

RELATIONSHIP, ACCOUNTABILITY AND PHYSICAL PROXIMITY. A successful business requires a deep and up-to-date knowledge of one's market and customers. The closer one is to them, the more one can stay aware of market and customer trends – not everything that happens in this world can be read instantly on the web. This does create hurdles: significant investments must be made in making all financial markets managers fully capable of delivering the complete product and service array.

In particular, the growth in risk management services has created a need to have fully skilled people knowledgeable of the customers' issues, current and potential. The local knowledge blended with

FIGURE 1

PRESENTING A FULL FINANCIAL MARKETS CAPABILITY TO THE UK MARKET VIA REGIONAL OFFICES



DELIVER THE FULL RANGE OF FINANCIAL MARKET PRODUCTS CAN OFFER AN ALTERNATIVE TO LONDON.

OFFER

product and structuring skills creates greater opportunity for all staff to grow their personal skills base and progress.

In addition to local delivery, many financial markets service providers also see their international offices as natural extensions of their regional UK offices. For example, a customer in Leeds can leave an overnight forex order with the local office that is subsequently executed via Singapore. Although the service is delivered locally, the global presence still comes into play.

Bank-client relationships demand a high standard of care and trust. Trust only builds over time when two people have experience dealing with each other. Personal interaction is an important element in that trust building process. At financial institutions where 'head office' is the primary contact point for client relationships, customers sometimes have to deal with many product specialists. If you want a foreign exchange forward you speak with someone, if you want to invest surplus funds you speak with someone else, a third person deals with your credit lines, and on and on. This may work when everything has been set up and there are no problems. However, if you need a new service or approach or have a problem it may be difficult to find the 'right' person to take charge and sort things out.

A decentralised structure allows one point-of-contact with the corporate client from the financial markets perspective, physically close to them. This focus creates greater accountability and allows the customer simpler and more direct channels of communication.

Regional organisation also allows for greater interaction with corporate banking relationship managers and ensures that the financial markets representative is kept aware of the issues facing the customer. This level of interaction leads to innovative and genuinely bespoke risk management solutions being created matching the debt structure and appetite of the customer.

'One bank' is presented to the customer rather than a group of remote product specialists. Yet, the corporate relationship manager still has all the product specialists at their disposal; they simply manage the process for the customer. Of course, not all transactions are handled 'personally'. The use of the internet is both a way of increasing delivery of services to clients in a manner they were looking for and were comfortable with and, also, a way of changing the organisational structure to allow the bank to stay 'close to the customer' while having optimal product execution capability. In effect working more efficiently for them.

THE IMPACT OF TECHNOLOGY. The limiting factor to technology in the late 1980s and early 1990s was that it was not portable. 'Connectivity' might be extended outside of a bank for a very small group of its most prestigious accounts. However, this was a lengthy IT project and not an option offered to the large majority of customers. As technology changed how many banks approached client relationship in the 1980s, technology is again looking to change the delivery of financial services. The technology available now provides the opportunity to make information and operational capability independent of physical location.

This has enormous implications for how banks can deliver services and expertise. Now a regional centre in Bristol or Leeds has the same access to information and transactional capability as the product centres in London or elsewhere. This structure does, however, require that the best possible internal systems are put in place. Relationship treasury managers in the regional centres must be confident of the communication with the product specialists in London. Therefore, technology is as important for internal communication and execution as it is for bank-client interaction.

ADAPTING TO A CHANGING EMPLOYMENT MARKET. Ten years ago, bankers perhaps saw working in London as desirable from both a career and a lifestyle perspective. That mindset could be changing. The high cost of London housing and a challenged public transportation system are changing people's attitudes about where to live. The 'talent pool' is becoming much more geographically diverse in the UK and creating strong incentives to further build up a robust financial markets business outside of the capital. The regional model is not just being driven by clients and technology, but also by the personal career and lifestyle choices of employees.

Another interesting aside is the overlap and interaction in careers between the corporate and the banking sector. When large banks in London hire, they focus on two sources: new graduates and people who have worked for other banks in London. With regional offices it is easier to take treasury managers from industry and, conversely, allow employees to go into industry. This creates a lot of cross-polinisation and people in the industry with a better knowledge of 'both sides' of the relationship, allowing the bank to draw more on local knowledge while providing financial experience to the corporate treasury sector.

RELATIONSHIP BANKING – BACK TO BASICS. Over the last twenty years, the banking sector in the UK has gone full-circle. Most banks started out with large branch networks and relationship managers in every community. Then in the 1980s, technology drove some to consolidate their operations to achieve cost economies. Others, like us in the treasury markets, resisted this trend. Now technology is reinforcing the decision we made to have a decentralised operation with a strong local presence in regional centres.

The accessibility of information is increasing price competition and commoditising financial products. At the end of the day, the greatest value a bank can offer to its customer is: trust, knowledge of the business and insightful solutions. This it best achieved when a bank and its corporate customer have a close relationship – both literally and figuratively.

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