TRUSTED ADVISERS?

Following the financial crisis, Harshit Jain explains how treasurers can get the best from their banks

Not a day goes by without the media reporting a case of a bank somewhere in the world having taken short-term, self-aggrandising actions instead of long-term measures to protect its customers' and stakeholders' interests. The ongoing financial crisis has thrown up many threats for banks, some of the key ones being:

- Government controls through overzealous regulators;
- Loss of confidence and trust from customers and media;
- Counterparty risk mitigation by customers (including banks as counterparties as well);
- Increased cynicism and scrutiny around whether banks really are in the 'business of risk' and 'belong to the service industry';
- Low margins and an increasing aversion from customers to paying fees;
- Low or no customer loyalty; and
- Competition from totally new players from the telecoms, technology and retail industries, which could hasten the disintermediation of banks, even among corporate customers.

But I believe that the declining trust of customers is the biggest threat that banks need to address as a priority. Unfortunately, trust takes a long time to build and can be lost in an instant. Those banks that are quick to realise that the banker-customer relationship is firmly and rapidly moving towards one of balance and reciprocity and that regaining their customers' trust holds the key to sustained profitability will be the winners.

Who can we trust?

Corporate treasurers have always faced the dilemma of whom to trust – the bank or the banker (relationship manager)? Paul Myners, chairman of Marks & Spencer, once said: "The selection of an investment bank is, at its heart, about people. And here, personal relationships are hugely important because, in the end, the decision should come down to trust, based on prior experience or recommendation. Do you trust the banker? People tend to trust individuals, not organisations."

On the other hand, akin to the age-old definition of an ambassador as "someone who lies abroad for the good of his country", the *Vault Career Guide to Investment Banking* defines the most important task of relationship managers as "...schmoozing in the industry, finding potential deals, and pitching them with confidence and poise. Public speaking skills, industry awareness, demonstrated experience and an ability to sell combine to create the best bankers."

You can judge, based on your own experiences of having dealt with banks and relationship managers, which one of these you agree with more. I agree with the former point of view and believe that the relationship manager's market reputation and the personal trust of his or her customers have the potential to create institutional trust within his or her bank, thereby making the much-needed transformation for banks, from relationship marketing to advocacy marketing.

Trust and advocacy

It is not easy to quantify the trust element among the relationship banks/bankers that a corporate treasurer has to deal with. Trust involves a shared judgement about

BANKING ON TRUST IN A LOW-TRUST WORLD

QUESTION: Is not commercial credit based primarily upon money or property?
MR MORGAN: No, sir; the first thing is character.
QUESTION: Before money or property?
MR MORGAN: Before money or anything else. Money cannot buy it... Because a man I do not trust could not get money from me on all the bonds in Christendom.
JPMorgan's 1912 Congressional Testimony

SOURCE: *THE HOUSE OF MORGAN* BY RON CHERNOW (SIMON & SCHUSTER, 1990)

1 Most financial services firms treat their customers fairly.
2 Most financial firms will mislead their customers if they can make more profit by doing so.
3 Financial firms sell the product that pays the most commission, not what is best for you.
Responses from research by the UK Financial Services Authority

reliability and integrity and is concerned with the degree of confidence that both parties have that the other party will fulfil their obligations and responsibilities.
In recent times, given the importance of this 'measurement' in determining which banks you use and/or what share-of-wallet is routed through which bank, we are proposing below a set of criteria that could help treasurers make the right choice. In the proprietary banking request for proposal that we use in our customer assignments, we have seen that the trust element has become a key requirement for corporate customers along with other factors, such as the products/services suite, technology, banks' credit ratings, credit facilities, documentation, service levels, willingness and extent of customisation to business processes, harmonised pricing structure and additional considerations.

In their seminal work, *The Trusted Advisor*, David Maister, Charles Green and Robert Galford offer the 'Trust Equation', which shows how different personal trust elements interrelate:

T = (C + R + I)/S, where
T = Trustworthiness
(Trust of relationship manager)
C = Credibility (Trust of words)
R = Reliability (Trust of actions)
I = Intimacy (Trust of emotions)
S = Self-orientation (Trust of motives)

So much about the personal trust equation as far as your relationship manager is concerned. You now need to measure the institutional trust of the banks you are dealing with. This tends to be more tricky and complex as there are many other factors to consider. Nevertheless, you can arrive at a high-level estimate of institutional trust by assessing each bank that you use according to the following criteria:

- Transparency;
- Product innovation;
- Service quality and delivery;
- Incentives – are these aligned to bank or customer gain?
- Partnering – does the bank genuinely partner with its customers?
- Honesty – does the bank compare competitive products honestly?
- Supply chain – do the bank's supply chain partners also build up trust with the customer?
- Cultural attitude – is it left to a bank's marketing team to plug products or services, or is this seen as the job of everyone in the bank?

An intuitive and experiential measure that judiciously combines personal (relationship manager) trust with institutional trust will help you come up with an objective comparison among your potential (existing and/or new) banking partners.

The dark side of relationships

Despite the corporate treasurer having adhered to a strong trust and advocacy framework during bank selection, it is important not to get blindsided as these relationships stabilise. Here are some of the key factors you need to continually monitor to ensure the ongoing sustainability of your banking partnerships:

- Getting too much into your 'comfort zone' so as to neglect developments in the marketplace;
- Checking transaction pricing structure of best-in-class banks and FX rates from websites occasionally to ensure you are not being 'taken for granted';
- Caveat emptor clauses/restrictions, such as exit clauses, switching barriers, relationship 'cross-sell push' of other products/services, unreasonable 'right of first refusal' covenant conditions, which must be fully understood, discussed and agreed upon in writing (ie not just left as a verbal understanding with your relationship manager);
- Getting connected to unwanted business partners who belong to the bank's network 'without your permission'; and
- Having at least a say in the choice of your relationship manager during times of mergers and acquisitions.

Like the Pink Floyd classic, 'The Dark Side of the Moon', these 'dark sides' of relationships must be observed, or what starts off as a partnership may turn into a burden for one of, or even both, parties.

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