Ask the experts:

Smaller can be better

WITH GREATER REGULATION IN EUROPE FOLLOWING THE CREDIT CRUNCH, HOW WILL CORPORATE TREASURERS SECURE THE GLOBAL SERVICES THEY REQUIRE FROM THEIR BANKING PARTNERS?

Tim Allison, group treasurer, Logica

We have to distinguish between the funding and the services sides of the corporate/bank relationship.

On the funding side, capital markets have been consistently open for corporates for most of the past 18 months, and companies have used them to refinance debt maturing in 2010 to 2012, while at the same time improving their own liquidity and balance sheet strength. There has been a clear trend for mid-cap corporates to replace bank debt with capital market debt of longer maturity. In this way the mid-cap corporate has begun to organise itself in a similar way to how large global corporates have always done. This introduces an important change to the corporate/bank relationship – a lower requirement for bank funding and smaller banking groups.

This change coincides with a period of historically low M&A activity. Having taken advantage of investor demand in the capital markets, corporates are well placed to embark on non-organic growth. But the appetite of boards to undertake the financial and business risks associated with large acquisitions is still low. Many companies are prepared to consider small bolt-on acquisitions which can be funded from existing cashflow, but large debt-funded M&A deals have not returned to the corporate/bank landscape. It remains to be seen whether they will, and how much corporates will look to their banks to fund these types of deals, if at all.

So as a general theme, there is less pressure on corporates to look to banks as the main source of strategic funding, which would be hard for banks to deliver anyway given their capital and liquidity constraints.

The services side then becomes more important and there is evolution here too. Corporates will look for a small number of partner banks that can provide the services they need in the countries in which they operate as well as providing a degree of committed lending to fund working capital and other short-term requirements. In turn, banks will make lending decisions on the basis of the ancillary business they already receive, rather than in the hope of future business. Cash management, local banking and payments will be core to these relationships. This will produce smaller banking groups, but ultimately a more mutually rewarding relationship for both banks and companies.

Dietrich von Krosigk, director of administration and finance, Panasonic Electric Works Europe

To get the best local service, many European companies with subsidiaries select local European banks, so there may be several European banks within a group. The challenge for such groups is to bring about cash pooling. The IBOS Association is the key to connecting local European banks to allow zero-balancing cash pooling.

Panasonic Electric Works Europe (a subsidiary of Panasonic Electric Works Japan) is in such a situation. It has 10 subsidiaries in Europe and is achieving its zero-balancing cash pooling with HVB/UniCredit and the IBOS Association. The company also has access to HVB/UniCredit at the IBOS Association and the related member banks' highly skilled experts. This brought about a smooth introduction of zero-balancing cash pooling. In particular, the availability of local experts supported communication with local personnel of the subsidiaries of Panasonic Electric Works Europe.

As well as zero-balancing cash pooling, the IBOS Association has advantages such as explicit pricing provided by member banks for all services and no charge on intercompany credits.

Bob Lyddon, managing director, IBOS Association

There are signs of retrenchment by banks as they are encouraged to focus on home markets. This is manifested as a reduction in service range at a foreign branch, or a focus on a narrower target market, or a relocation of the relationship management function for foreign multinationals out of the branch in the multinational's country and back to the bank's head office. The results: less choice, more travelling to obtain banking services, and a reversion from the single point of service model.

Even a corporate that is confident of passing a bank's KYC (know your customer) tests will come up against unexpected challenges. One of these can be that the resource for KYC checking on "foreign" companies is limited to preselected target customers of the foreign multinational division, and will not work on the foreign parent (by definition, then, a beneficial owner with a stake exceeding the KYC threshold of 15-20%) of an important prospect of commercial banking.

Clearly, IBOS has an interest here – namely to ensure that a broad and deep banking service is accessible through each member bank to its customers, so that the single point of service model can be sustained.

The back-end service is supported by multiple banks, not just one, although the difference between the two in IT and business process terms reduces the further into detail one goes.

IBOS's multiple banks work to a common set of processes and messages, so it is not a jumble of different approaches, but an organisation whose aim is to allow a harmonised approach by the customer too. IBOS also offers the advantage that the banks involved are full service, have a domestic network, and can offer an extended range of commercial banking services, not just payments and cash management.