Revving up for action

BUSINESSES AND BANKS NEED TO RE-EVALUATE THE WAY THEY WORK TOGETHER. BUT WE ARE SEEING PROGRESS, AS **MARTIN HODGES** EXPLAINS.

“Banks are looking to work with businesses across a whole range of areas, but naturally the one that interests me most is trade finance. Talking to treasurers and chief financial officers (CFOs), it strikes me that there are encouraging signs suggesting an export-led recovery may just be starting to take off.

Santander is certainly putting resources in this area and we are beginning to see a lift-off in the number of transactions, financing and facilities emerging from the pipeline. And this energy and interest is not only happening among large companies with a track record in exports and bidding for overseas contracts. We are also seeing smaller and newer businesses exploring international trade for the first time.

Over the last couple of years the banks have been working hard to rebuild trust with customers and to provide the financial products and services which British business requires to ensure a successful future. I represent Santander in the work that the British Banking Association (BBA) has been tasked to do in the area of trade finance. The Business Finance taskforce was set up by the BBA following the publication last year of the government’s green paper “Financing the private sector recovery”. The taskforce banks have committed themselves to 17 actions in three broad areas: improving customer relationships, ensuring better access to finance and providing better information and promoting understanding.

One of the 17 pledges is to improve access to trade finance through various initiatives, one of which is the Export Enterprise Finance Guarantee scheme (ExEFG) available to businesses with a turnover below £25m. In parallel, we have seen a positive response by the Export Credits Guarantee Department (ECGD), launching a bond support scheme for corporate contracts in excess of £1m.

This is more than just talk. Santander is lending £625,000 to Norton Motorcycles (UK). The company will boost production of its bespoke bikes after receiving the first ever ExEFG trade loan. The funding will support the company’s plans to increase production to 1,000 motorcycles a year. It will also benefit Norton’s supply chain, 80% of which is British.

Stuart Garner, chief executive of Norton Motorcycles (UK), says: “The ExEFG scheme has enabled our business to grow rapidly to meet the demands of an ever increasing international customer base and I am thrilled we now have the opportunity to take on more staff to join our team. This scheme will not only benefit Norton and the local area, by supporting enterprising firms across the country it will help drive forward the British economy.”

Such projects are sensible, workable and important. They show a commitment from both the government and the financial sector to help businesses access the finance they need to grow and develop. But these actions alone will not restore confidence in the banking sector.

Press reports over the summer suggested smaller businesses in particular were afraid to initiate discussions with their banks for fear of provoking them into raising charges and fees or reducing the credit available. We have to remind ourselves of the ground rules under which any business should be seeking credit from any bank. Businesses need to be able to demonstrate a sound business plan and the correct management team in order to ensure that lenders are comfortable extending credit. It is particularly important to show that the business plan and the management structure are up to date and capable of facing the different challenges that many sectors face in the tough economic and commercial conditions which prevail.

The spate of business failures on the high street in the early part of the summer just underlined how tough day-to-day trading is for many businesses operating in retail and elsewhere. And the turmoil in many parts of the world underlines why it is necessary for companies looking to work in overseas markets to ensure that their risk management is as comprehensive as possible, and that includes ensuring using products such as letters of credit and contract and performance bonds.

The other point that banks need to make more effectively is that finance is not cheap. With the Bank of England holding interest rates at 0.5% for 28 months in a row, it is easy to believe that borrowing costs should be low. Sadly, this is just not the case. The banks’ cost of liquidity is many times higher than the official headline rate and those real costs are the ones that treasurers and CFOs know are the real factors determining their own borrowing costs.

Faced with such a set of circumstances, treasurers and banks have to ensure that they work together and have clear and open lines of communications. If that happens, then the banks will be able to understand their clients’ strategies and be able to use their knowledge to suggest practical financing solutions that will work.

Strong banking relationships are the only realistic way forward to ensure that banks and treasurers work together on the detail of products and financing plans to drive growth.”

Martin Hodges, head of trade, Santander Corporate Banking.
Martin.Hodges@santander.co.uk
www.santandercb.co.uk