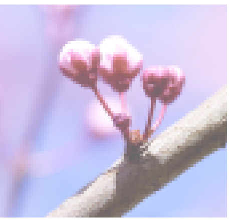

Return to growth, but not old ways

THE NEW CHALLENGE FOR CORPORATE TREASURERS IS HOW TO BOOST WORKING CAPITAL AND FUND GROWTH INTO THE ECONOMIC UPTURN. BUT RECESSION'S HARD-HEADED LEGACY WILL CONTINUE TO INFORM BANKING RELATIONSHIPS FOR YEARS TO COME, PREDICTS **JOHN SALTER**.

As the economy gradually emerges from its deep recession, corporate treasurers are changing the emphasis of the cash management services they want from banks. Until now, strategic cash management has been as much about capturing as much group liquidity as possible as anything else. But now, as businesses seek to exploit new opportunities, the next challenge is about rapidly boosting working capital and funding growth into the economic upturn.

One thing won't change, though. It's my belief that, even as we regain what passes for the good times, the disciplines and hard-headedness forced on both corporate treasuries and their bankers will endure for some time.

Few professionals working in corporate finance have ever been required to focus so sharply on liquidity and cash management as they have in the last 18 months. Few can recall the last time they needed to work so closely with their bankers. A recent ACT survey of members found that nine out of 10 treasurers think that their role has been magnified, and six in 10 say that the treasury role that has grown the most is financial risk management.

The change has been profound. Only two or three years ago, we were all still talking about the sharpest innovations, the latest technologies and the smartest applications. Before the recession, it felt like an arms race: all the discussion was about the latest clever weaponry in auto-reconciliation, global cross-currency pooling and extended interoperability.

Now we're seeing a market informed by what I'd call

pragmatic innovation. Sound business sense now comes a long way in front of technological thrills. The blunt truth is that the world has gone back to basics. Risk management and evaluation are firmly back on everyone's agenda.

And today's demand from corporate treasurers for expert risk advisory services to capitalise on post-recession opportunities makes complete sense. Treasurers have had to demand more operational discipline from their own teams. For their part, the banks that remain in the market are requiring a higher level of information from corporates: loan documentation is more complex, covenants more numerous and the borrowing process longer.

The contributory factors are not hard to seek. Debt has become a less widely available product than it was before the credit crunch struck. Some providers are reducing their loan books or exiting the market completely. And, with pressure on existing lenders to rebuild their balance sheets, the cost of funds has risen, maturities have shortened and the annualised cost of renegotiation fees has increased.

On the liabilities side, most treasuries seem committed to overnight call money – a market where returns are nominal. You need to lock up money for at least 90 days to earn any meaningful return from spare cash. Meanwhile, proposed liquidity adequacy rules in the UK and Europe suggest that some banks may ultimately be able to pay even less in return for corporate deposits.

As a result, companies now recognise – as they rarely have before – the paramount need to work on their banking relationships. And not just at treasury level: there's increasingly a top-down acceptance of the need to sell the company's strategy and explain the risks. Even for some smaller facilities, businesses are acutely aware of the need for sound forecasting, particularly on cashflow.

The same goes for bankers. Where we used to engage with perhaps one or two key people in a company, we'll now meet the entire board – and the sales and operational teams too – so that we fully understand the business. We need to know, and we need to know early. A warning about a pinch-point in three months says so much more about the calibre of a company's management than a sudden call for facilities a week before an unforeseen crisis.

In this setting, the imperative of systems integration has become more pronounced. For our larger corporate customers, the ability to integrate their enterprise resource planning (ERP) and treasury management systems (TMS) with their banks' systems has become even more attractive as an essential tool of the robust financial forecasting that underpins risk management.

In the last 18 months, businesses have slashed costs and overheads, frozen wages and downsized. Many are now gearing up for at least modest growth. It's an investment that requires accurate forecasting to ensure that companies can manage their facilities and avoid a liquidity crisis through an appropriate mix of long-term and short-term debt, planned well in advance.

This is essential as lending remains tight. Many observers now regard lending as a seller's market. Margins have gone up, not dramatically but certainly to what many commentators describe as a sensible level. We'd be wise to assume that capital availability is likely to remain challenging down the line.

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Stretching capital adequacy rules and tighter compliance regimes have the potential to increase the net cost to the banks and our acute challenge is how to minimise the feed-through of those costs to our customers. Certainly, the winners of the future will be those banks that successfully meet this challenge while still delivering an outstanding customer experience.

For corporate clients, the key issue is how to make cash work harder, boosting short-term cash management by accelerating receivables, making payables more efficient and simplifying the reconciliation. The demand for automatic reconciliation of all transactions – straight-through reconciliation (STR) – is growing. I remember writing 10 years ago that improving clients' reconciliation rates for receivables would be the next great battlefield for banking. Today, guess what, it's still one of our great battlefields.

Despite the complexity, it's clear that it's here where significant medium-term opportunities persist to enhance the customer experience. We'll see that, to take just one example, as the provisions of the Single Euro Payments Area (SEPA) and, specifically, new SEPA direct debit products gain traction in the next few years. That's the next big technological challenge.

Automated systems that connect a bank seamlessly to the client's in-house system are designed to permit transparent reconciliation and give real-time access to balances and statements, resulting in more control over payments. This kind of convergence is the first step in sound cashflow forecasting, the key to creating a complete solution to ease a client's payables and receivables.

But let's never forget: the payments and receivables may be automated, but the client's banking relationship can never be. It's always the people who make the difference.

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