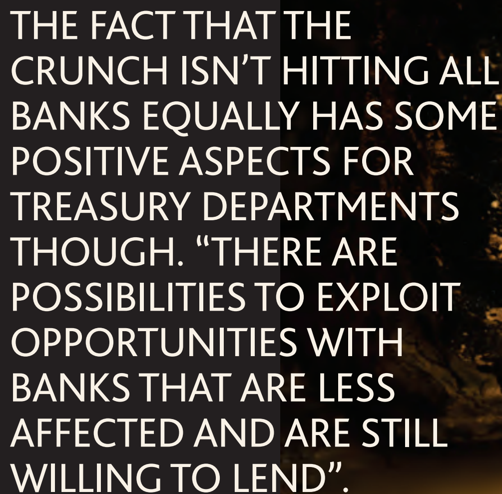

THE FACT THAT THE CRUNCH ISN'T HITTING ALL BANKS EQUALLY HAS SOME POSITIVE ASPECTS FOR TREASURY DEPARTMENTS THOUGH. "THERE ARE POSSIBILITIES TO EXPLOIT OPPORTUNITIES WITH BANKS THAT ARE LESS AFFECTED AND ARE STILL WILLING TO LEND".

SEPA STARTS TO HAVE AN IMPACT The introduction of the first phase of the Single Euro Payments Area (SEPA) in January means that a pan-Europe direct credit regime is now operational, although Holmes suggests that the onus is on banks to introduce the software that enables a greater take-up by clients (other than the largest clients with direct SWIFT access etc).

"Belgium's domestic banks are reasonably up to speed, but we sometimes find that payments are rejected at the other end, for example in Germany," he reports. "Same day value payments also don't work too well in countries such as Austria and Spain, due to local float being taken." Noticeably, there is no SWIFT or bank product that guarantees certainty of credit of funds on a day chosen by the sender.

He believes that the direct debit phase of SEPA will prove much more problematic, due to specific differences between European countries in areas such as their terms of recall. Businesses will not readily abandon local ACH systems for local payments and receipts and "unless further action is taken to ease their path, SEPA direct debits won't get up and running very easily". In Germany, substantial discounts are granted for early payment but the system relies greatly on direct debiting. In the UK, by contrast, direct debiting is less acceptable.

CREDIT CRUNCH TAKES ITS TOLL In the past year the credit crunch has produced a clear shift by banks and corporates alike to try to avoid commuting credit in both loans and derivatives. Some receivables programmes have seen their bank conduit and the credit enhancement under question, but overall the impact on Etex Group's financing has been modest.

"In our case, suppliers such as cement companies have high credit ratings and are not fragmented," Holmes explains. But recent market movements have persuaded the group to consider alternative sources of financing. This could involve a German or US private placement or receivables financing, although both are only tentative proposals so far.

Does he believe that the lack of liquidity has enhanced the benefits of a healthy cashflow?

"Not much if you have core borrowings, although a good cashflow may help a refinancing deal get completed more easily – assuming that a business is reducing borrowings year on year."

Holmes suggests that most companies have yet to experience the full effect of tightening economic environment. As they refinanced in 2005 or 2006, and those deals still have more than a year to expiry, the impact won't be felt until 2009 or 2010.

He describes RBS's recent closure of its leasing business as a sign of the times.

"For some banks, their lack of tax capacity means they will have to change their attitude towards leasing and some tax-structured products may disappear.

"The credit crunch could also affect bank relationships, with companies losing some banks that don't have sufficient ancillary business, or if they have over-centralised with one or two banks that bid very competitively."

"We shall be acting, where we can, to use this to push more business to the core banks that will have problems," says Holmes.

Banks are likely to continue regarding cash management as a loss leader, with further implications for relationship banking if the leading cash management bank succeeds in displacing the local banks in a relationship group.

The fact that the crunch isn't hitting all banks equally has some positive aspects for treasury departments though. "There are possibilities to exploit opportunities with banks that are less affected and are still willing to lend."

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