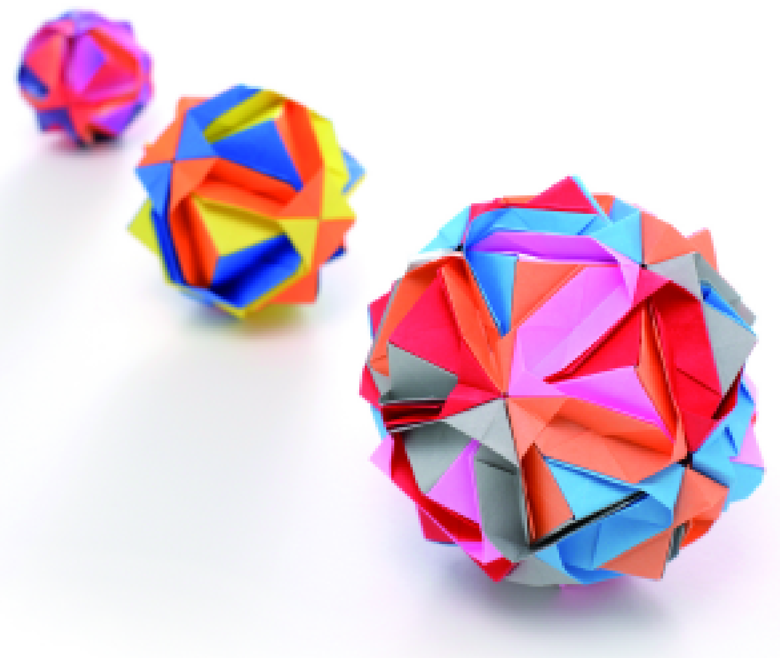
The 3D banker

THERE ARE THREE THINGS ON THE MINDS OF CORPORATE TREASURERS RIGHT NOW, SAYS **RICHARD DALLAS**, ALL PRODUCTS OF THE ECONOMIC AND REGULATORY ENVIRONMENT IN WHICH WE'RE CURRENTLY OPERATING.



The last few years have seen a period of incredible change for UK corporates, unprecedented in recent history. Recovery will be neither dramatic nor rapid. Continuing levels of low confidence will keep a lid on consumer demand and businesses will, therefore, continue to focus on maintaining a low-cost/low-risk environment.

In terms of the UK, what we're expecting economically over the next two or three years is a fragile domestic recovery, as the coalition government grapples with the imperatives of an unprecedented fiscal imbalance. Internationally, there's no doubt that, while the growth engines of the so-called BRIC (Brazil, Russia, India, China) economies have also slowed, it's to them that we must look for trade buoyancy. The Far East and Asian economies, in particular, are sources of comparative optimism as generators of potential demand. The indicators point to strong growth within the emerging economies, and some pick-up in the US, over the next year or so.

What's also clear, for corporate treasurers and bankers alike, is that increased regulation is bound to dominate our shared landscape. The timing and substance of many of the protocols coming from the Basel III consultations on the capital adequacy of banks still have to be clarified. Which means, in turn, that it's not yet possible to be precise about the banking sector's lending capabilities. But for those who nursed natural concerns about the continued stability of banks, the recent series of severe regulatory stress-tests must have provided important reassurance. These were conducted precisely to examine the resilience of the banking sector's own funding.

Treasurers are confronting bankers with pressing challenges – and exciting opportunities – to strengthen our banking relationships. These are the economic and regulatory pressures that have helped to shape these top-of-mind corporate issues, the factors driving corporate treasurers' quest for sharper competitiveness and greater cost efficiency. These are the challenges we're welcoming head-on.

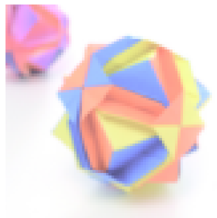
RISK MANAGEMENT In the first instance, there's a natural and persistent demand from corporate treasurers for steadfast and imaginative banking support to manage and reduce their exposure to trading risks. There's no doubt that the shocks in the financial system are still fresh in everyone's minds. As a result, the importance of risk management is now probably greater than it has been for a number of years.

Corporate treasurers are looking to bankers for tools that will let them reduce and control their risk exposures – specifically, instruments to manage the volatility of interest rates and foreign exchange rates.

We've seen growing demand from businesses to understand how to tailor their own cash management strategies to reduce risk. In some cases, recessionary pressures have forced businesses to look at markets where they have limited experience – in itself an inherent risk. But the recession has also led to opportunities for businesses to grow organically and by acquisition. And, as with any change to core strategy, this creates risk. Understanding this and seeking methods to manage risk are key elements of a good business relationship between banker and corporate treasurer.

Precisely because of the economic uncertainties we face, treasurers are right to see exposure to unpredictable swings in these rates as highly significant sources of their own potential budgetary instability in the next few years. But there are solutions that we bankers can offer to reduce this exposure, this unpredictability and this instability.

LIQUIDITY SOLUTIONS Second, there's a natural and continuing expectation by corporate treasurers for solid and dependable liquidity solutions – for even more efficiency in managing their credit and cash. The management of credit and cash balances is a key challenge for corporate treasurers.



Given the prominence of export-oriented trade issues, we're seeing more people turning back to traditional finance products – what we would call the solid, basic transactional banking products that are now at the heart of what businesses need.

Trading with companies on an open accounting basis is potentially less attractive than having the appropriate trade finance guarantees and risk measures in place. This management of risk is as fundamental to our business as it should be to those of our customers.

RESPONSIVE TECHNOLOGY Finally, there's a growing and understandable clamour for banks to provide far less restricted access channels to services than has perhaps previously been contemplated. Whether you're looking at the regulatory or the economic drivers, it's clear that the expectation is that technological innovation by banks will accelerate.

Demands on the progression of technology solutions have never been so high. One clear example of this is the emerging pressure for responsive technologies that allow customers to deal with non-proprietary banking channels.

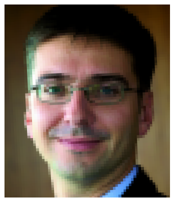
It's a radical idea. Traditionally, each bank has provided its own channels for customers to access its products and services. However, there is now increasing demand for channels for dealing with multiple banks.

There is also increasing dissatisfaction among the treasurer community, with banks trying to press customers into using their own proprietary solutions. So, both in trade finance and cash management, there is growing demand from customers, who want to work with bank technology platforms that give equal access to all banking partners.

That makes sense. It means customers can take a more risk-balanced approach with a portfolio of banks. And, should they have any concerns about banks, it means they can switch business a lot more easily. We call that a good client proposition.

In all three respects – with risk management, with liquidity solutions and with channel diversity – what corporate treasurers expect above all, we believe, is not a one-dimensional relationship with tomorrow's banks, but a partnership with their leading banker as their trusted business adviser.

Richard Dallas is transactional banking director at Lloyds Banking Group.
RichardDallas@bankofscotland.co.uk
www.lloydstsb.com/corporatemarkets



Lloyds TSB | Corporate Markets