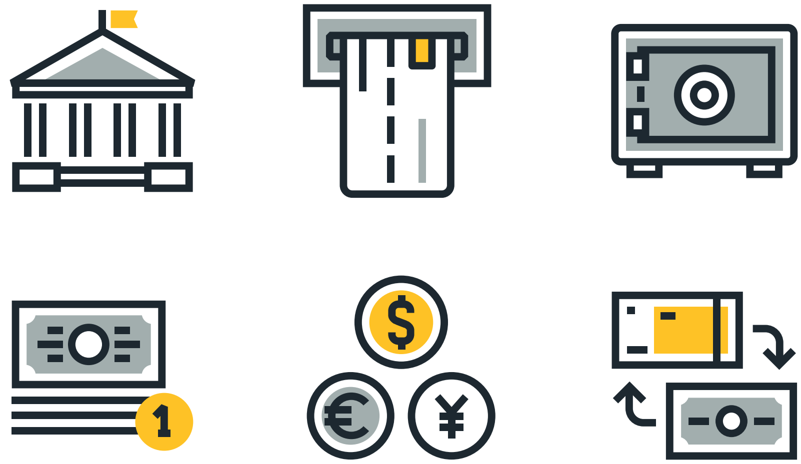

BETTER TOGETHER

IN A COMPLEX REGULATORY ENVIRONMENT, COMPANIES AND THEIR PARTNERS ARE MORE INTERDEPENDENT THAN EVER BEFORE. VISHAL VIRMANI BELIEVES CORPORATES AND THEIR BANKS MUST RALLY TO SUPPORT A CHANGE AGENDA

SHUTTERSTOCK

The banking industry has entered a new normal. The financial crisis of 2008 has changed the game and, in the world of new regulation, banks have realised that they need to take a more active role in developing and defining the funding profiles of corporates to support them on the path to sustainable growth.

First, let's talk about what has happened. Changing regulatory needs and liquidity requirements have significantly adjusted the way banks lend money and who they lend it to. For corporates, this has seen management place greater importance on its treasury function and on ensuring it has the right financial structure in place. Greater levels of sophistication in business processes and practices have been incorporated in operating models, along with better-defined objectives. In addition, there has been an increase in investments towards enterprise resource planning (ERP) systems, treasury management system software and integration of these systems with banks, for the most part led by internal needs and organic growth.

As these changes have become the norm, the relationships between corporates and their banks have reached a new level of closeness, leading to more comprehensive and consultative discussions on how to create further improvements and generate new efficiencies. ERP investment and utilisation by corporates is no longer a new area of focus; it is now embedded practice and incorporated in budgeting processes and risk management activities. Banks, in turn, have moved on to standardised operating models across business units and across jurisdictions, with policies established to accelerate automation in client-transaction flows, to ensure greater straight-through processing rates and reduced human intervention.

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Rally cry

One of the greatest changes to result from this is the recognition by both sides of the importance of more expansive relationship management – one that is based on a range of services, including working capital; and a move away from one based predominantly on lending and product pricing. The banker has the ability to act as a strategic participant in the corporate treasury's evolutionary journey. The inclusion of working capital as an area of greater focus has brought the corporate treasurer and its cash management banker closer. The bank can share experience and expertise both from the position of knowing the organisation's transactional behaviour as well as understanding the dynamics of similar corporates. This way, the rally cry is sounded from two corners speaking the same language – where the bank better understands specific objectives of the corporate treasurer; and corporate treasurers appreciate the importance of cash management within a basket of services directed at their partner bank.

And so, as we move further into the new norm, how can corporates and banks partner to support a change agenda?

For starters, both sides need to accept that change will remain constant for the foreseeable future. This includes changes to infrastructure (at the corporate, the bank, regulatory and market) that controls transaction flows. Market dynamics, regulatory reporting, risk management practices, continuous system enhancements, modifications to banking products, launch of new services and ways of doing business are just some of the areas of frequent change. All of this has a direct impact on ways in which a treasurer operates and how a bank prioritises clients.

In the past, there was a singular focus by banks to price each product in isolation. Today, there is a move towards pricing based on the share of wallet based on a basket of services. Corporates now understand that banks measure client profitability by using a risk-adjusted return on capital model, where their profitability increases as the use of non-capital-intensive products, such as cash management, are added to the basket. This makes it imperative for treasurers and their relationship bankers to maintain regular dialogue on the topic of cash management, allowing the change agenda to be subconsciously prepared for.

The next important aspect of the partnership is to work together to regularly review each other's longer-term objectives and strategy. Most day-to-day relationships between a corporate treasury team and their bank's cash management team are focused on reactive service and periodic service reviews. This is a necessary short-term view. Corporates and banks in an obligatory, but non-binding, partnership have each other's vested interests at the heart of the relationship and, as such, the corporate and the bank must have regular discussions and informal updates on each other's strategy; sometimes even when still an early straw man concept. This allows the genuine advisory element of the relationship to come to the fore, right from the initial planning phase. Partnerships that manage this communication effectively are better prepared to effect change and have seen greater success in managing the change and transformation agenda to the benefit of all.

Corporate treasurers must agree, document and establish their precise long-term business objectives

Successful integration

There is a high probability that in any treasury-transformation life cycle, an organisation will go through some form of complex integration with their bank. The most successful integration projects achieve the greatest success when the change agenda itself is planned ahead of the technical build. This may include activities where the bank is asked to introduce other clients as referral sources to the wider treasury and financial accounting teams of the corporate that is planning the next phase of their treasury evolution. Not only does this provide the organisation with first-hand information and experiences on challenges faced, but it also provides them with a template to work around possible activities, such as establishing milestones and project-governance models.

Another alternative is to conduct topic-based workshops attended by the corporate treasury and finance team and the bank's cash management team, comprising individuals from the front-line cash management advisory area, through to product specialists and back-office processing teams. Such referral introductions and workshops allow any treasury-transformation agenda to have your primary stakeholders provide input, intelligence and recommendations – and rally the support required to take forward the change programme.

Blueprint

Finally, corporate treasurers must agree, document and establish their precise long-term business objectives. This should be the blueprint and a comprehensive description of banking products and services required by the organisation; as well as the relevance of these products to their business – including what, how, why and for how much. It usually forms the foundation on which corporate treasurers release their cash management request for proposal. In the corporate-bank partnership, it allows both sides to be best prepared for the evaluation and selection process, ensuring that this vital stage of the change process is transparent, consistent and provides the corporate with clearly articulated responses from the banks – incorporating appropriate solutions, with evidence of capability and experience.

However, even the best-laid plans can go awry. It is essential to be prepared for change. The smallest software upgrade can have as much of an impact on productivity and performance as the largest technology overhaul. Similarly, the tiniest change to an internal process can have as much of an influence on decision-making as a shift in market dynamics. In such situations, preparation and planning, with clear objectives, milestones and a link to a larger strategy, are essential. The most important thing for corporates is to keep your bank informed and work together to adapt the path to your treasury transformation.

Like any change journey, treasury transformation works best when key stakeholders are clearly identified and their support garnered. The partnership between the corporate treasurer and their cash management banker is no different. Their relationship is symbiotic in their daily activities, as well as the longer-term delivery of results.

The views expressed in this article represent those of the author and not necessarily those of the bank.

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