# Buyer beware

As the preoccupation with managing bank credit has eased, **Hugo van Wijk**, co-CEO, Vallstein, says treasurers should now be focusing on more strategic longer-term issues such as bank relationship management.

Now that the immediate urgency of the credit crisis has passed, we are left with the question of 'What comes next'? During the height of the crisis, all attention was focused on managing working capital in the face of banks tightening credit lines. Treasurers would now be forgiven for returning to "business as normal" and focusing on the latest innovations in their treasury domain. However, in stepping back to consider the latest trends, treasurers should not take a one-dimensional view of the situation and new products available; the time has now come to take stock and apply a much broader view. If you do, then a very different perspective and course of action emerges for treasurers in this post-credit crisis environment.

To set the scene, in a recent *Global Treasury Survey*, PricewaterhouseCoopers (PwC) asked the question, 'Can the crisis make treasury stronger'? Eighty percent of the respondents confirmed that the financial crisis had gained them greater boardroom attention and 70% believed that the crisis highlighted the value that they create within the business. However, only 20% felt able to secure extra resources as a result of the crisis.

The survey also revealed that as the immediate crisis passed, attention rightfully expanded from short-term priorities like securing immediate liquidity (and possible alternatives for this around banks) to longer-term strategic bank relationship management (BRM). That domain is now squarely seen as part of risk management in addition to making sure operational banking requirements are covered at competitive conditions. Risk management is now seen as an area where treasury adds even more value than cash management. In short, the latest trend is not that treasurers should look for new 'whizz-bang' products, but that the function and added value of treasury itself is changing and they need to stay one step ahead themselves.

Having a good BRM strategy is a necessity from a risk management point of view. The credit crisis has made it clear that supervisors cannot supervise everything, even if they wanted to. Market discipline is an essential Pillar III under the Basel framework (in addition to minimum capital requirements under Pillar I, and Pillar II). The Basel Committee has put forward a solid Basel III, which will increase the quality and amount of capital. However, the key question is not only how much capital you need, but also what you use it for? Here, market discipline is essential. If, in the words of former World Bank economist, Andrew Hilton, the definition of a good banker continues to be "someone who frequently outsmarts the regulators", the predictable consequence will remain that the financial sector from time to time explodes. Already there are signs that banks are trying to innovate yet again around the new rules. Regulation in itself cannot keep a check on financial innovation. More regulation and supervision will have the unwanted side effect of increased moral hazard. To be clear, innovation as such does not need to be bad at all, but market discipline is needed to make sure good innovations succeed and bad innovations fail.

### A key business requirement

Treasurers are exceptionally well placed to provide such market discipline, and that is what critical and professional BRM is about. According to the PwC survey, treasurers have already moved BRM to the top of their priorities, because nobody wants to be caught by surprise again if and when another financial crisis occurs.

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At the same time, by implementing and executing an up-to-standard BRM, treasurers can make a key contribution to reducing the likelihood of the reoccurrence of a banking crisis.

There is another practical reason why good BRM has become a key business requirement. Basel III has now been published. Banks were falling over themselves to point out that "Basel III will make it significantly more expensive", due to the higher capital requirements and requirements on liquidity and stable funding. However, buyer beware should be the guiding principle for the treasury community on this point. The Basel Committee has pointed out in a quantitative impact study that the costs of implementation of Basel III do not need to be passed on in full to the client community at all, since there is ample room with other stakeholders to share the costs, just as they share in the benefits of Basel III. Basel III will cause more differentiation between banks on key parameters. This in turn implies that greater insight is required by treasurers in terms of how banks compare with each other on such parameters so as to ensure that the right share of wallet is allocated to the right banks for the right conditions.

So what is good BRM all about then? This question is best answered by simply listing some essential characteristics that at least should form part of a BRM solution:

*Continuous* – BRM is not a one-off exercise like an in-depth review once every few years to "re-validate" the banking strategy. Good BRM is an ongoing process of strategy definition – execution, monitoring and revalidation. If you start to define, execute, monitor or revalidate once a crisis has broken out, it is too late.

*Bilateral* – A comprehensive BRM strategy includes full insight into your own contribution to the balance sheet and P&L of each bank, and therefore full knowledge of your own wallet, as well as good insight into some core indicators of the bank, which goes well beyond knowing the credit rating to assess counterparty risk. Know your own numbers, but make sure you also know the bank's numbers where and when relevant for you.

*Complete* – You will need a 360-degree overview – make sure you include all banking products (including corporate finance) and all bank relationships. Even if you have still opted for a transaction-driven banking strategy on a product-by-product basis, remember that ultimately the overall return for each bank is always driven by the entire share of wallet, and not just the individual product that is being negotiated. You can never validate your results if the overview is not complete. Being incomplete is one of the most common yet also most critical omissions, driven by the misperception that having the lowest individually negotiated price on every product will produce the best result.

*Quantitative & Qualitative* – It is not just about the numbers. You also need an adequate scoring and monitoring system to assess the quality of the bank, in terms of processes, daily operations, relationship coverage and client service.

*Multi-level & Multi-dimensional* – From the company's perspective BRM is both operational and strategic, and covers both working capital/transaction banking as well as corporate finance/investment banking. It involves both the treasurer and CFO, who in turn should ensure sufficient multi-level relationship coverage from the bank's side including appropriate escalation paths to executive level that do justice to the share of wallet allocated to each bank.

Treasurers are pivotal in all aspects of good BRM. They are the starting point for the 'where do we actually stand today' assessment. From their invaluable day-to-day operational experience with their banks they are the prime source for qualitative assessments. It is in treasury departments that also the bilateral analysis of the bank relationships can take place, including the assessment of the banks on relevant KPI's. And, number-wise, treasury departments usually use the most banking products, so in order to get the 360-degree view it is logical to start and maintain the initiative there. The latest trend in treasury is not (only) to consider the latest innovation in short-term funding. The 'what's next' question is very much about the expanded strategic responsibility and added value of treasury itself. And then, the real innovation on short-term funding would be if CFO's could make sure that treasury departments are sufficiently funded to take on this new challenge. ■