International Treasurer®
The Journal of Global Treasury and Financial Risk Management

Bank relationship management

Global Cash Management Banking in Risky Times

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Concerns about bank stability may have impacted corporate thinking — but have not necessarily changed the process of how companies are allocating their transaction banking business.

Many multinationals are giving more thought to how they trade off perceived efficiencies of fewer banks with spreading institutional risks across a number of financial players. The economic climate has pushed concerns regarding the banks and bank business allocation to a more senior management and even Board level. However, best practices always have dictated that there should be a thorough evaluative process in allocating transaction and credit business among a number of banking institutions.

ONE WORLD, ONE BANK?

Not really— the single global bank concept has fallen out of favor and not just due to present-day concerns. One world, one bank has proved to be an unrealistic goal for practical, as well as risk reasons. Locating a single bank to handle transaction services worldwide is simply no easy feat.

For starters, most treasurers know that size does not necessarily equate with global capabilities: three of the world's largest banks by assets are Chinese, and none of the three provide transactional services outside of China.

Also, there are regulatory reasons that must be considered. In countries such as China, Korea, India and even Japan, for example, using an indigenous bank is necessary for expediting local customer collections or making local tax payments. The single bank solution will not work in these situations, a fact that may not be revealed in advance of implementation.

Aside from the practicalities of concentrating banking business, the risk factor needs to be weighed. Leaving aside the greater financial risk with banks today, it rarely makes sense to have "all your eggs in one basket" with a sole supplier of goods or services. As we have seen in the past few months, large banks or banking groups will be supported by government in most countries. So, for most corporates, the issue is not losing money in the extremely unlikely event that a banking institution goes under, but rather that there may be a change in ownership from a merger/acquisition; a decline in service, or the bank may simply decide that it does not want to do business with you, which happens with some frequency. So it's pretty important to have a Plan B, even in better times— and that means having relationships with more than one bank.

While being exposed to one bank goes too far, it is riskier to have hundreds of banks spread across the globe than it is to concentrate business with a chosen few, especially if you have limited visibility over the funds in those far-flung bank accounts. Ultimately, the best approach is to 1) rationalize bank relationships globally, which could mean three or twenty-three, based on your firm's business footprint, operational needs and geography and 2) spread risk so your banking footprint takes advantage of the best banks/banking services in each region/country.

THE BANK RATIONALIZATION PROCESS

Given the need for fewer banks globally —whether for technical or pragmatic reasons—but not too few, what is the process that companies should use to determine how to streamline?

The process starts with a clear understanding of the drivers behind bank rationalization. These fall into three, often overlapping, categories:

1) Strategic

a) Acquisitions and mergers force the need to evaluate whether multiple banks are needed in a country or region and if the total number of accounts can be reduced.

b) Structural adjustments or realignment, such as the establishment of new holding companies in response to tax or legal initiatives that may drive the need for treasury centers and special liquidity services such as pooling which will use but a single bank for this purpose.

c) Administrative actions including consolidation of accounting services in an SSC or the implementation of an ERP system that can lead to process changes justifying banking platform improvements such as host-to-host payment processing and thus elimination of multiple banks for local payments.

2) Operational

a) The need for upgraded services at regional or local levels to accommodate internal process improvements or customer and vendor needs.

DRIVERS OF BANK CONSOLIDATION

While the "one bank" idea can be debunked for primarily practical reasons (see main story), the trend of bank rationalization and consolidation that has been ongoing over the past several years will continue. Here are some drivers behind this:

■ **Global ERP platforms**, which have been in place for many companies for over a decade and now are going through a second or third upgrade. As a natural consequence, treasury needs to again insure that bank accounts are not just current, but necessary from a business perspective. This often results in paring down redundant accounts.

■ **Consolidation of payment platforms utilizing STP:** one pipeline to one, two or three banks paying vendors for multiple subsidiaries across borders, currencies, and using a variety of payment instruments is now the norm. Thus, more and more companies are paying local vendors on a centralized or regionalized basis, bypassing local banks.

■ **Centralization of corporate structures and processes:** SSCs, regional treasuries and consolidation of business units reduce both the number of processes and bank accounts needed to serve firms globally.

■ **The euro zone** has made it possible to use a single bank across Europe. With SEPA this trend will be accelerated. Collections, which before were always handled locally because of the cost of cross border payments for customers, can be centralized in one European location with one bank. A/R issues, similarly, can be handled with centralized sub accounts held in respective subsidiaries' names. IT

b) Geographic expansion of existing businesses and product lines may require banks with branch or partner networks capable of servicing more than a simple sales office's requirements.

3) Treasury

a) The treasurer's desire to increase oversight and control over bank accounts globally in response to SOX or other audit requirements.

b) External pressure may demand improved liquidity management through access to internal cash and expanded bank credit facilities.

c) The opportunity to lower the cost of banking services by reducing the number of accounts and changing the mix of services purchased.

From there, rationalizing banking relationships involves determining the best combination of banks required to support business operations in all locations where the company has a physical presence. If you sell internationally or have overseas suppliers—but only have offices in the US—you will not need "local" accounts, for example. Paring down the number of accounts to a more reasonable structure can be broken into three broad approaches:

1) Large Local. Using large indigenous banks in each country where you operate generally enhances the availability of a wide branch network and direct membership in the local payment and clearing systems. In-country pricing can often be lowest. Due to the large branching network that most local banks have in their home country, most firms can probably use only a single local institution. (Notable exceptions: Korea, where it is common to have accounts with banks that your customers use because then the collection process is electronic, which may mean you use two to three banks; and China, where often a local bank is required as they need to have a physical proximity to the office, and the bank used for tax payments is dictated by the government.) A significant shortcoming in this approach is that cross-border pricing and integration costs may make reliance on an indigenous bank an expensive choice and the local focus may make it difficult for treasury to manage operations centrally.

2) Regional Players. This approach divides the globe into logical regional segments and allows the selection of global or regional banks to serve one of the regions. This approach offers the benefit of diversification, but does require a minimum company size to be effective. Common divisions include North America, Latin America, Asia Pacific and Europe. Where company size is insufficient for so many categories, another common division is US and Global.

3) Hybrid. The most common approach is to employ a combination of one or two global banks working with strategic or network partners in countries where the global bank does not have full coverage or is not permitted for regulatory reasons to offer certain services. The key to this approach is to effectively select and leverage the global bank and its strategic partners. This simplifies the RFP process as the number of banks capable of providing this type of solution is relatively limited.

Bear in mind that a bank with a large number of branches in every corner of the world is not very valuable if pricing, credit decisions, service delivery and actual relationship management is handled at the local branch level. It's important that the banks selected to service the company globally can manage the entire relationship centrally, but have strong regional and local support centers, so that a small office or plant in Seoul or Shanghai both can receive service and be seen as part of the larger global enterprise.

FINAL CONSIDERATIONS

If your firm does not have a relationship with any of the global banks and plans to adopt a structure that includes one of these players it is time for a reality check:

Do they want to have a relationship with you? The recent financial crisis has made banks risk averse, too. Banks will go through an in-depth credit assessment before they decide they want to do business with you. Plus, profitability concerns have been changing the way banks make their global networks available to customers. Increasingly, unfettered access to global networks is being made available only to the bank's best customers. This weighs further on bank rationalization decisions (see sidebar, right).

Also keep in mind that changing banks and opening new accounts is a time-consuming and onerous project.

Ideally, the process of rationalizing the global banking structure and judiciously allocating banking business can meet 1) treasury requirements for improved control of cash and better services; 2) address senior management concerns regarding spreading institutional risk and 3) satisfy banks' increased profitability and quality counterparty demands. This is a good outcome in any economy. ▬

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BUSINESS ALLOCATION CONCERNS

Treasurers must be concerned with how they allocate their business to banks — especially those in the company's credit facility— and banks, in turn, want to see enough business allocated to warrant the services being provided (see *IT*, April 2009). This is especially true for the limited number of banks with global networks.

LOOK TO THE FULL MIX

Fortunately, there is a lot more bank business to spread around than just cash management, collection and disbursement services. These services include payroll, FX, P-cards/T&E cards, trade finance, investment and custody, guarantees and securitization.

All these types of activity can be divided among a few or several banks (local, regional and global), while the global or regional cash management solutions are handled by one or two major global players. IT