{ TREASURY INSIDER }

Divvying up the pot

There's a knack to satisfying bankers who are hungry for ancillary business, maintains our Treasury Insider

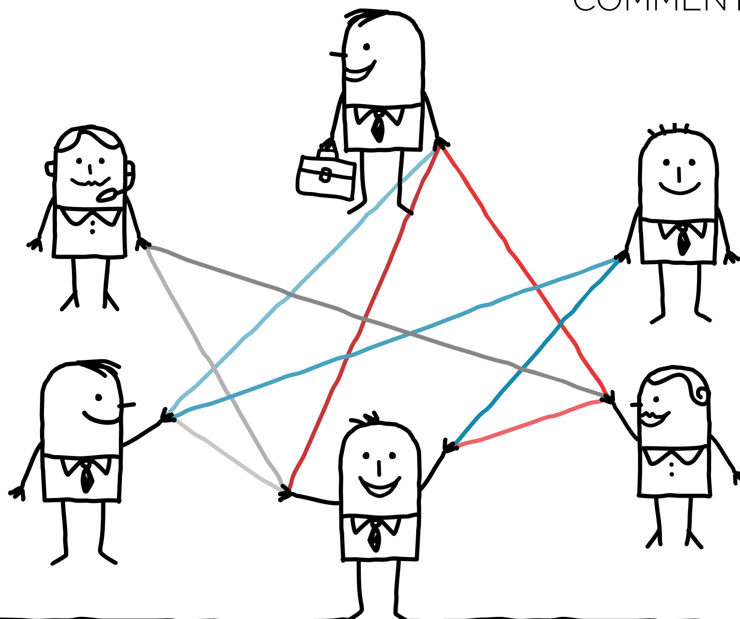

ILLUSTRATION: SHUTTERSTOCK

How do you make a banker happy? This isn't the start of a great joke – sorry to disappoint – but it underpins a constant consideration for treasurers. That is, ensuring that banks get sufficient ancillary business to justify their lending commitments. This is of particular interest to me, having just refinanced my organisation's revolving credit facility (RCF).

We've welcomed a number of new banks into our bank group – some new relationships, others providing lending commitments to secure continued ancillary business that they may otherwise lose. And within our ongoing relationships, some banks have increased their participation. Fantastic for the business, but we have many understandably hungry mouths to feed.

And that hunger has been heightened by Basel III's increased capital costs for banks, especially for RCF commitments to lower-rated companies. Our bankers' business cases to their credit committees demand a valuable chunk of ancillary.

It's part of a banker's DNA to never be completely satisfied with their corporate clients – a bit like a football manager who wants more even after his team has thumped their biggest rivals 5-0. Our corresponding requirement is to detect when any professed hardship on a bank is genuine. Expectations management is key: we control the message, so we have to reflect on how any bankers end up with a distorted picture of the business that's coming their way.

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Appropriate allocation

The question is, how do we build a framework to allocate our ancillary business appropriately? And how do we monitor this to support the ongoing bank relationship? Before we even start, we need visibility over the group's potential ancillary business. Then we need to influence outcomes to deliver business to our relationship banks, while meeting the needs of local management.

Next, we need to record and quantify what business has been won by each bank – and, importantly, the associated fees. Also, the opportunities they've had access to, and where they've come up short. This isn't a ground-breaking theory, but, anecdotally, such granular feedback to banks is far from common.

Dealing platforms offer the type of reporting that we need for this purpose – our challenge is to extend these templates to capture the less-easily-quantifiable metrics. And that's before we think about any low-value (today), but highly symbolic (future), business, for example, the appointment of the local banker in a key growth market.

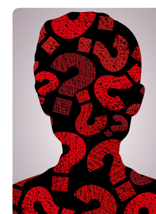
Approaches will vary. Consider a FTSE 20 – with M&A and financing mandates, global banking and plenty of hedging – alongside a FTSE 350 with no international exposures. Many large corporates rank their banks in tiers, reflecting levels of participation in committed facilities. Rewarding major players with access to the most attractive tickets and incentivising progression within the bank group over time are powerful tactics. Although they may discourage smaller lenders, bigger corporates can often live with this.

Our approach reflects our size, international reach and credit status. New entrants to the bank group need a warm welcome, and banks that have stepped up their commitment to support the company's financial development are due their reward. All the while, we must be mindful of the need not to punish our long-standing relationships that have supported the business over the years.

Balancing act

So, our most significant ancillary business will continue to go to our biggest lenders, but FX and commodity hedging will be open to all. Cash management and other local mandates could be appointed rather than subject to competitive tender processes. Instead of including every bank on every deal, the geographic profile and product strengths of our banks will allow us to compile appropriate shortlists. But still, it is quite a balancing act.

And, ultimately, we'll know how successful we've been when we next refinance our RCF. Happy bankers will maintain, and maybe even increase, their bank's commitment.



The Treasury Insider works in corporate treasury at a well-known institution in the UK