Successful corporate banking
Focus on fundamentals
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Continued market volatility, macroeconomic and geopolitical uncertainty, and the new global and national regulatory reforms have led to some significant changes in how both corporations and banks strategically focus and manage their relationships.

The lingering after-effects of the 2008 financial crisis and the ongoing Eurozone debt crisis have forced corporations to re-evaluate the stability of their core banking teams. As bank ratings decline, government takeovers increase, and troubling issues — such as the Libor scandal — continue to erode customer confidence, counterparty risk and exposure from banks have become heightened concerns for corporations. Seventy-nine percent of executives interviewed for this study listed stability and financial performance as top criteria for selecting and keeping core banks.

In addition, the liquidity and capital regulations imposed on financial institutions under Basel III have pressured banks to increase their pricing to reflect the costs of compliance with the new rules. Corporate credit has become much more expensive, and as a result, corporate financial executives are becoming much more rigorous about how they manage...
their banking relationships and how they distribute ancillary business among their core banks. Many are reviewing their pricing policies and agreements with primary banks and are assessing the cost versus benefit of each service used. Some have increased the number of banks in their credit facilities to reduce risk, and many are exploring bond markets and other alternative sources of funding to avoid higher costs.

However, it is not just the companies that are re-examining their relationships. Regulatory reforms are driving banks to strategically assess their businesses to adapt to the new environment. In a recent study conducted jointly by Ernst & Young and the International Institute of Finance (IIF), the 75 banking executives interviewed for the study agreed that the more stringent liquidity and capital requirements under Basel III will have a fundamental impact on business models, and ultimately the profitability of the industry.

Sixty-five percent of banks studied are evaluating their portfolios – assessing risks and profitability by business, geography and product, including a thorough look at all corporate relationships, individual customers and facilities to decide where, how and with whom they will do business going forward. Close to a third are exiting lines of business that are no longer profitable, several (13%) are exiting countries where profitability is lower or where unfavorable regulations could trap liquidity and capital, and some are retreating back to their home countries.

Both corporations and banks are facing the ongoing challenges of short- and longer-term business planning in today’s fluid market environment. As one corporate executive summed up, “I liken managing in today’s turbulent environment to Whac-A-Mole with my team.”

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1. Progress in Financial Services Risk Management, Ernst & Young and the International Institute of Finance, June 2012.
But despite these disruptive influences on corporate and banking interactions, the executives interviewed emphasized that the traditional principles of what makes business relationships work still very much apply and, in fact, are more important than ever in today’s turbulent environment.

Respondents agree that establishing and maintaining a strong working relationship with banks requires hard work, mutual respect, and trust and commitment on both sides. While the majority of executives (63%) gave their current core banking teams high marks on overall performance, banks fell short of expectations on 11 out of 16 key performance criteria used to select and continue core bank relationships (see “Overview: Bank performance against corporate criteria for selecting and keeping their primary group of banks,” pages 6 and 7).

Based on our discussions, there are several critical performance fundamentals that banks need to consider to more effectively manage relationships with their strategic corporate clients:

• **It’s all about service.** An overwhelming majority (89%) of respondents voted service quality as the most important criterion for selecting and continuing their core banking relationships. Companies assess service performance using a variety of metrics: availability, approachability and professionalism of the people; knowledge of the business; willingness and ability to customize offerings; response time; and speed and efficiency of service. Executives cite a lack of consistency in the quality and delivery of services across geographies as their top challenge in working with banks.

• **Transparency is critical.** As mentioned, counterparty risk is a key concern for corporate executives. The majority (69%) say their banks’ position and transparency on risk, liquidity and capital, and portfolio concentration are extremely important in today’s volatile financial marketplace, but only 27% say their bank is willing to share this information.

• **Pricing must be competitive, flexible and consistent.** Sixty-nine percent list price competitiveness and 44% cite flexibility of fee structures as very important to relationship status. While most of the study participants are fairly satisfied with the current fee structures from their core banking groups, many complain about inconsistent pricing across regions.

• **Technology is an enabler.** Technology capability is important to study participants, with 65% rating sophistication of technology to enable efficient product and service delivery as a top performance criterion. Outdated processes and systems are sources of frustration, and many respondents expressed disappointment in the banking industry for its lack of investment in technology.

• **Advisory services are the differentiators.** Most of the corporate executives surveyed say they look to their primary banks as important “thinking partners.” In fact, 67% of interviewees say that the advisory services provided by many of their core banks are the top benefit of their relationships. All agree that they want to work with those banks that take the time and interest to keep them informed on key financial issues affecting their markets. They also prefer banks that bring them innovative ideas – a new relevant product offering or a new way to look at an old problem.

• **Listen to your customer.** When asked to recommend how banks can improve services, virtually all responses focused on the softer, more intangible aspects of relationship management – proactive commitment and attention, responsiveness and communication – versus more tangible factors relating to cost, products or technologies (see “Recommendations for banks: Listen to your customers” sidebar).

The bottom line for the very sophisticated corporate financial executives who participated in the study is that managing relationships – through good economic times and bad – boils down to the basics: stay close to your customers, listen to what they want and need, and consistently deliver quality services.

“At the end of the day, banking is very much a service business, and service businesses are about people, relationships and trust.”
Recommendations for banks: Listen to your customers

We asked interviewees to offer one or two recommendations for how banks can improve services and products to better meet needs and expectations. Here’s what they said:

“Banks need to understand the priorities and the business scenarios that their clients are trying to solve — try to look at it from our point of view.”

“Frankly, for me, they need to better understand their clients and their clients’ needs. Very few banks spend time understanding their clients in reasonable detail.”

“Be more in tune with what your client is saying. Banks need to anticipate your next move.”

“Always listen to your client. Don’t try to impose things that are not relevant. We like ideas as long as they are relevant.”

“We need them to show up and understand us and provide ideas and matches of their products to our needs.”

“Keep an ongoing dialogue with your clients. Be open to suggestions. Don’t worry about how it fits in the box that exists — draw new lines and create a new box.”

“Know us and our culture better, figure out who we are and what we are interested in and what we are not interested in. Know us so that when you come and pitch something and right when you open the book, I don’t just roll my eyes and think, ‘This doesn’t make sense and you are wasting my time.’ Come to us with fewer ideas, but better ideas.”

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## Overview

Bank performance against corporate criteria for selecting and keeping their primary group of banks

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Degree of importance</th>
<th>Bank performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability</td>
<td>76%</td>
<td>43%</td>
</tr>
<tr>
<td>Product quality</td>
<td>82%</td>
<td>64%</td>
</tr>
<tr>
<td>Transparency</td>
<td>69%</td>
<td>27%</td>
</tr>
<tr>
<td>Price competitiveness</td>
<td>69%</td>
<td>60%</td>
</tr>
<tr>
<td>Customized offerings</td>
<td>68%</td>
<td>53%</td>
</tr>
<tr>
<td>Technology sophistication</td>
<td>65%</td>
<td>55%</td>
</tr>
<tr>
<td>Innovation</td>
<td>63%</td>
<td>40%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Bank performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability say financial stability and performance of banks are critical in today's volatile environment.</td>
<td>are completely confident their banks are stable and fit securely within their company's risk parameters.</td>
</tr>
<tr>
<td>Product quality list product quality as very important.</td>
<td>give their banks strong marks, but they note that good product offerings are a prerequisite to even being considered as a core bank.</td>
</tr>
<tr>
<td>Transparency indicate that their bank's position and transparency on risk, liquidity and capital, and portfolio concentration are important.</td>
<td>say their banks are willing to share this information.</td>
</tr>
<tr>
<td>Price competitiveness rate price competitiveness as a top criterion.</td>
<td>say they are satisfied with their bank's fees, though the majority complain of inconsistent pricing across geographies.</td>
</tr>
<tr>
<td>Customized offerings indicate that ability and willingness to offer customized service and products is an important relationship criterion.</td>
<td>say their banks are doing a good job in this area.</td>
</tr>
<tr>
<td>Technology sophistication say that technology sophistication is important.</td>
<td>give their banks good marks, but over a third (35%) cite outdated processes and systems as a top challenge in working with banks.</td>
</tr>
<tr>
<td>Innovation list innovation in services and products as key.</td>
<td>rate banks as performing well.</td>
</tr>
</tbody>
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2Corporate finance executives were asked to rate on a 1–10 scale (where 10 equals most important and 1 equals not at all important) the degree of importance of 16 performance criteria in the selection of their core banking team. They then were asked to rate on a 1–10 scale (where 10 equals excellent and 1 equals poor) the performance of their primary bank across each of these criteria. The percentages above represent the percentage of ratings eight or higher on selection and on performance.
**Research methodology and demographics**

From June through September 2012, Ernst & Young conducted telephone interviews with treasurers, CFOs and other senior financial executives from 20 global corporations across 9 industry sectors and 11 countries.

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto</td>
<td>Delphi, Consumer, Almarai, Danone, Diageo, LVMH, Nike</td>
</tr>
<tr>
<td>Life sciences</td>
<td>Eli Lilly, Mining and minerals, Vale</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>ConocoPhillips, Statoil, Total</td>
</tr>
<tr>
<td>Power and utilities</td>
<td>Eskom, FirstEnergy, Vattenfall, Real estate</td>
</tr>
<tr>
<td>Technology</td>
<td>Cisco, Google, Lenovo, Telecommunications, AT&amp;T</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Life sciences, Mining and minerals, Vale, Oil and gas, ConocoPhillips, Statoil, Total, Eskom, FirstEnergy, Vattenfall, Real estate, AT&amp;T</td>
</tr>
</tbody>
</table>

### Degree of importance vs Bank performance

<table>
<thead>
<tr>
<th>Category</th>
<th>SIFIs vs regional players</th>
<th>Presence in key growth markets</th>
<th>Geographic footprint</th>
<th>Depth and breadth of service and product offerings</th>
<th>Industry sector knowledge</th>
<th>Specialty in a specific area</th>
<th>Flexibility of fee structure</th>
<th>Use and delivery of services through third-party relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of importance</td>
<td>63%</td>
<td>62%</td>
<td>62%</td>
<td>61%</td>
<td>53%</td>
<td>50%</td>
<td>50%</td>
<td>53%</td>
</tr>
<tr>
<td>Bank performance</td>
<td>50%</td>
<td>53%</td>
<td>60%</td>
<td>53%</td>
<td>53%</td>
<td>53%</td>
<td>47%</td>
<td>20%</td>
</tr>
</tbody>
</table>

63% acknowledge that working with SIFIs is important from both a global footprint and a capability standpoint, as well as for stability.

62% listed presence in key growth markets as very important.

62% say geographic footprint is important, which is not surprising given the size and reach of the study participants.

61% say that banks must have a strong base of products and services.

53% rate industry knowledge as important.

50% value of specialization of service.

44% indicate that flexible fee structures are important.

0% ranked this as important. Corporates expect their banks to be able to deliver what they need and not outsource or partner with external organizations.

50% say the banks in their core group are SIFIs. Most work with a combination of SIFIs, large banks not designated as systemically important, and strong regional players.

53% say their banks provide good coverage.

60% gave their core team high marks.

53% acknowledge that their core banks are predominately full-service institutions with broad and deep capabilities.

53% say their banks do a good job. However, the degree of perceived value varies by industry and service area.

53% say their mix of banks can provide those services. However, the degree of perceived value varies by industry and service area.

47% say they are pleased with current fees; most admit that because of the size and strength of their company’s clout, they can negotiate very competitive and flexible fee structures.

20% say they have had acceptable experiences with third party partners.

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3SIFI stands for systemically important financial institutions
Approach to relationship management

Commitment and partnership are key

In describing their organizational philosophies on the use of and relationships with banks, many interviewees used words like “historical,” “stable” and “partnership.” All agreed that building a strong working relationship with a bank takes mutual commitment and time. In fact, several corporations in the study have grown up with their banks over many years. As one interviewee said, “Establishing and maintaining long-term relationships with your key banking partners is hard work on both sides – which is why we rarely shift around.”

According to study participants, the banks they consider to be core or primary partners are those that commit the most money and time to the relationship. As one executive explained, “A core bank is defined by the size of commitment of their balance sheet to our business and their commitment to our story.” For most of the study participants, the entry criterion for becoming a part of their core group of banks is participation in their revolving credit facility or syndicated loan pools. For some corporations, the level of commitment varies by bank, with a few providing the lion’s share of investment, while others have standardized the percentage of credit that each bank provides.

It is understood by both the corporates and the banks that participation in the credit facility essentially guarantees additional business with the company. The executives interviewed take this understanding very seriously. Many discussed the importance and challenges of fairly dispersing work across their primary group of banks to, as one executive said, “make certain that we both get what we want out of
“I want to be a good customer to the banks. We treat them as we want to be treated.”
The four participants who predominantly work with one banking partner were very emphatic about the many benefits of an exclusive relationship. As one treasurer explained, “Our main bank is really an integral part of our treasury department. We actually have a dedicated project and IT team. We talk to them every week to go through projects across regions. They aggregate activities and report back to us and take a lot of work off of our team.”

The majority (75%) of respondents do not have a formal process in place to review and rationalize the number of core banks with which they partner. Most say they assess the number of banks on an informal basis or when they renew their credit facilities (see Exhibit 2). The 25% of respondents who formally review the number and mix of banks within their primary group discussed a variety of processes. One executive described a biannual exercise with a consultant to assess how much capital is needed for the company and to determine the return banks have on the amount of capital they have committed on behalf of the organization. The purpose, according to the interviewee, is to “understand what we look like in the eyes of the bank.”

Another company conducts an annual review to determine both the optimal number of banks required to fund the credit facilities as well as the right mixture of different banks to meet geographic and service area needs across the organization. One treasury department tracks the capacity and amount

### Exhibit 1

<table>
<thead>
<tr>
<th>Number of Core Banks</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>1-5</td>
<td>30%</td>
</tr>
<tr>
<td>6-10</td>
<td>25%</td>
</tr>
<tr>
<td>11-15</td>
<td>30%</td>
</tr>
<tr>
<td>16-20</td>
<td>15%</td>
</tr>
</tbody>
</table>

### Exhibit 2

75% have an informal process to rationalize the number of banks.
of credit, types of services and products, and number of transactions for each bank they work with so that at any point in time they know the profile and percentage of the business distributed to their core group of banks. Yet another corporation has developed a four-part criteria model to rate their banks across a number of parameters, including CD rates, capital ratios and overall credit ratings. According to the executive interviewed, the model has been a very helpful tool to assess the number of banks needed as well as the stability of the company’s banks and the risks across its portfolio.

Impact of the financial service industry regulations

Sixty-three percent of respondents say that the more rigorous financial services regulatory environment has not to date seriously affected their relationships with and use of banks (see Exhibit 3). However, all are on what one executive called “high alert” and are closely monitoring the stability of their banks and the attendant potential risks to their organizations (see page 16 for a discussion on transparency, stability and SIFIs).

Many say that the regulatory environment has not yet changed the number of banks that they deal with. If there is a change, it will most likely come as a result of a bank exiting a line of business or deciding to drop out of a credit facility because it is no longer profitable. However, several respondents are considering an increase in their pool of core banks to reduce the risk to the organization. As one executive described that philosophy, “Four years ago I would have said that nirvana would be to have one bank that could cover the world with standardized reporting and technology feeding into the system. That would be a great thing unless that bank goes away.”
Many respondents are worried the new Basel III regulations requiring banks to hold additional reserves will make it “prohibitively expensive” for corporations to borrow money. In an Ernst & Young study of 100 corporate treasurers released in April 2012⁴, 40% of treasurers interviewed indicated that financing (including refinancing) was one of the most important issues their companies have faced during the previous 12 months. According to the report, many companies are striving to reduce their dependence on specific banks and to diversify their funding counterparties. In addition, it is expected that “disintermediation” will increase, with corporates obtaining funding directly from capital markets. For example, about 23% of the companies are currently funded primarily through the capital markets, e.g., bond issues, and this is expected to rise to 28% (see Exhibit 4).

And finally, interviewees lamented the increase in bureaucracy as a result of the new banking regulations. As one executive commented, “What used to be done through a phone call now has to be overly documented and full of red tape.”

### Changing trends in service needs

Respondents were fairly evenly divided on whether service needs will change over the next three years, with 59% indicating no significant change and 41% anticipating some change (see Exhibit 5). Those who predict change say that it will be driven by two key factors. The first factor is the potential impact of the Basel III regulations on the costs of working with banks. Many corporations are already looking for alternative sources of funding, and interviewees believe this may change the relationship flow of how they work with banks. The second factor driving new service needs is internal changes within the corporations themselves. Several participant organizations are in various stages of expanding into new markets and geographies, while others are deleveraging and reducing debt. Both types of changes will require transitions in service needs and relationships with banks.

Seventy-six percent of interviewees do not plan to alter their balance of in-house versus outsourced services (see Exhibit 6).

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⁴Ernst & Young, *Reflecting on the future: A study of corporate treasuries*, 2012
Most study participants have sophisticated finance teams, and each company has a fairly established protocol of which services are performed in-house versus those outsourced to banks or alternative providers. However, the mix of in-house and outsourced services varies by corporation. Some say it’s about a 50-50 balance, others say they do most work in-house and some prefer to outsource as much as possible. Many say it’s a matter of culture and historical preference. As one in-house proponent explained, “If you externalize services, you spend too much time explaining what you want and need, and you have no assurance that the work will be done properly. Plus, you become too dependent and you lose control.” Another executive who works with one primary bank presented an opposing view: “I see no benefit to bringing things in-house and spending a lot of time, money and anxiety developing a global internal management system and team to execute on them.”

Few say they look extensively to alternative non-bank providers for services. Alternative sources mentioned included asset management companies to manage company pension funds, insurance agencies to post a bank letter of credit or surety bond, and stock certificate transfer agencies for shareholder services.

Exhibit 5
Change in service needs in next three years

Exhibit 6
Increase in in-house vs. outsourced services
Overall, respondents are pleased with the performance of their core group of banks. The majority, 63%, gave their banks an 8, 9 or 10 on a 10-point scale where 10 equaled excellent performance, and 37% say they are satisfied with the performance of their core team (see Exhibit 7). However, performance against specific selection criteria was weak, with banks falling short of expectations on 11 out of the 16 criteria (see “Overview: Bank performance against corporate criteria for selecting and keeping their primary group of banks,” pages 6 and 7).

There were several key areas where performance gaps were most pronounced:

- **Transparency** – the single biggest disparity between expectation and performance involves the lack of transparency on key risk parameters. Sixty-nine percent indicate that their bank's position and transparency on risk, liquidity, capital, and portfolio concentration are critical in selecting and keeping core banks. However, only 27% – a 42-percentage-point gap – say their banks are willing to share this information (see Exhibit 8). As one executive explained, “We don’t rely on what banks are telling us about their
own risk and portfolio concentration. We use rating agencies and market intelligence. Because, of course, they all tell us they are great.” And another told us, “It's a rare bank that would say, “We've got some issues post-crisis that we've got to solve, but we are working on it.”

The majority of treasurers use credit ratings from the main agencies as the key indicator of credit risk (see Exhibit 9). Perhaps recognizing the weakness of reliance on a sole measure of credit risk, nearly half of the respondents in Ernst & Young’s corporate treasury survey released in April 2012 also use credit default swap (CDS) spreads. While this measure may provide an additional warning of elevated credit risk with the bank's counterparties, its use should be tempered by the knowledge that actual CDS payouts have been limited.

- Stability and financial performance – interviewees agreed that the financial crisis and continued market and economic uncertainty have substantially elevated their attention to the stability and financial performance of the banks they select and work with. A significant number of respondents (76%) gave stability a top rating in terms of importance, making it the third most important criterion behind service and product quality. However, only 43% are completely confident their banks are stable and securely within their company’s risk parameters. Many discussed the immense transformation in their interest in and assessment of their banking team post-2008. As one executive described the difference, “We are seeing a total switch since 2008 when our ratings were the ones scrutinized by the banks. Now we have to be conscious of our exposure because we could be investing in a bank that has a lower credit rating than ours.”

Working with SIFIs is important for many respondents, but the reasons for doing so are mixed. Some say that SIFIs are really the only banks that are big enough and global enough to support their capital market needs, which is why their core banking teams have historically been the largest institutions. Others agree that working with SIFIs has taken on a degree of importance post-crisis because, as one treasurer told us, “If the world falls apart, they are theoretically the ones that are going to be left standing.” However, several say the downside of working with SIFIs is their lack of flexibility, especially on deposits, because they are so regulated. Most study participants work with a combination of SIFIs, large banks that are not designated as systemically important and strong regional players.
Innovative services and products — bringing innovative ideas and solutions to the table is a key differentiator that affects how companies decide to award services. While the majority, 63%, gave it a top rating in importance, only 40% say they are pleased with performance (see Exhibit 10). However, while the overall degree of importance is fairly high, some of the comments from the interviewees presented a mixed view on the value. For some executives, innovation is a 10 on their rating scale and a necessary attribute for their core banks. For others, it ranks quite low — in fact, some view it as a negative. One treasurer summed up the downside for him: “I would rank this very low because we really don’t like too sophisticated or innovative financial ideas or processes. We like to keep things simple.” Another told us that while innovation is important, getting the basics right is more important. Others say that importance varies by service area: for cash management, it is important to have access to and relationships with banks that are “forward looking” and always striving for new innovative solutions, while for other products, it’s not that important.

The lack of sophisticated technology to enable efficient product and service delivery is a major disappointment to finance executives. Although a majority of 65% rate technology as an important service need and expectation, only 55% say they are pleased with performance.

“We want fair market pricing, but we don’t want to push so hard that it’s not a win-win for both the company and the bank.”
Service and product quality — service quality was voted by the majority of respondents (89%) as the single most important criterion for selecting and keeping a core bank. While 73% gave their banks strong marks, the gap between the very high expectations and performance should be noted (see Exhibit 11). Everyone agrees that banking is ultimately a relationship business. It’s about investment in the customer’s business and developing relationships and trust. One executive summed it up by saying, “The best banks have good people who take the time to get to know us and understand our issues and challenges and are flexible and easy to work with. These are the ones we spend time with and trust.”

Product quality and functionality ranked second on the list, with 82% of interviewees giving it a top rating. Again, the majority (64%) gave their banks high marks, but the disparity in performance is significant. For most executives, product quality is pretty much a prerequisite to be considered a top-tier bank. As one executive explained, “This is a core thing to us. They wouldn’t be in the group if they didn’t have good products.”

Depth and breadth of services and product offerings is considered by many to be an entry ticket for core banks. The top-tier banks used by most of the corporations in the study are predominately full-service institutions with broad and deep services, or as one executive commented, “All of our banks wear lots of hats and they wear them well.” The downside of this comprehensive service, according to a few respondents, is that it can be difficult to equitably distribute services because every bank has fairly equal skills and capabilities. However, not everyone agrees with the full-service-only criterion. Fifty percent of respondents use banks that offer best-in-class services in specialty areas.

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While industry knowledge was acknowledged by more than half of interviewees as important, the degree of interest varied by industry and service area. Study participants in highly regulated segments understandably placed a great deal more importance on this criterion as they require a higher degree of industry-specific services. Others say that industry knowledge is only important and relevant for specialized service areas, such as mergers and acquisitions.

Corporations expect their banks to be able to deliver the services they need directly — not through an outsourced or third-party organization. In fact, several executives say that it is difficult
to deliver services through a partnership network, noting that their experiences with third parties have been “mixed and often challenging.”

- **Ability to customize offerings** – the willingness and ability to customize service and product solutions is considered an important criterion for the majority of participants, but more than half expressed disappointment in the performance of their core banks in this area. As one executive complained, “Banks don’t do this enough. They might come up with an idea, but they shop it around to all of their clients. It’s not tailored to us but to the overall market.” Added another interviewee, “Customization is an absolute prerequisite. We don’t even look at things that are not customized.”

- **Market coverage** – geographic footprint and presence in key growth markets were both rated as very important by the majority of respondents (see Exhibit 12). Not surprisingly, given the size and complexity of the corporations participating in the study, their top-tier banks are mostly large global institutions with the ability to provide services across all major and emerging markets. A few executives say that geographic capability varies in importance by service area. Cash management, for example, requires a worldwide footprint for most, while for other services, it is not an imperative.

- **Cost of services** – sixty-nine percent rate price competitiveness as very important, and 44% indicate that flexibility in fee structures is an important criterion for selecting and retaining their primary banks (see Exhibit 13). Several were emphatic that price is a 10 on a 1-10 scale, and they demand a 10 in performance in this area from their banks. One interviewee commented, “I wouldn’t want the banks to take away from the study that we don’t care what they charge.”

Overall, most of the respondents are fairly satisfied with their fee structures on products and services from their core banking group. Many used words such as “reasonable,” “competitive” and “transparent” when asked to discuss fees. However, many acknowledged they are fortunate to work in large corporations that command clout and leverage from a fee perspective. As one treasurer commented, “People tell me that I am great at price negotiation, but the fact is, I’m not that good; it’s just that I work for a big company. I have no illusions.” They also acknowledge that as premium corporations they receive a great deal of free advice and support from their banks, which needs to be considered in the pricing equation. As one executive told us, “I always try to remind myself of all the good advice, the meetings and the information they have given me that has created value for the company.” While a few did complain that prices are too high – especially for debt issuance, which one executive called “egregious” – many recognize that banks need to have a rate of return that keeps them committed to the company.

Most respondents say they do not like fee bundling and prefer to pay by product or service. However, one executive works for a company that negotiates a bundled price tag for an assortment of regional cash management services. A few said they sometimes used a fixed- or retainer-fee arrangement for products with defined timelines. One executive was fairly adamant that the philosophy and approach to success fees need to change. “When the market was booming, we didn’t mind paying a $5 million to $10 million success fee for a billion-dollar transaction,” he said. “But in today’s market, these fees are too expensive and need to be related more to the effort rather than just to the value of the transaction.” Several say banks need to simplify their “complex and confusing” fee statement reports that take both time and resources to analyze and approve.
Choosing banks and evaluating performance

Executives use a variety of processes

Study participants employ both formal and informal processes to select a new banking partner to add to their core team. About 50% conduct a formal request for proposal (RFP) process with pre-established and prioritized selection criteria. Because the executives who were interviewed are all very sophisticated and experienced buyers of banking services, most say that they have a good idea which bank is the most likely candidate for their team in advance of any formal or informal selection effort. As one interviewee said, “We only send RFPs to banks that have a credible chance of competing – we wouldn’t send a cash management proposal request to an investment banking firm.”

Respondents consider a variety of factors to determine which services to buy from which bank in their primary group. “We look at the bank, their relationship with us, their credit commitment, their ability to deliver whatever product or service is being considered, their ranking in this area and their pricing,” said one executive. Another interviewee first looks at the risk exposure thresholds the company has assigned to each bank and then considers a series of questions: Who has the capacity and strength? Can they help us with this? Are they good to work with? As he explained, “We balance the need for what we want to get done against the strength of the bank, both from a qualitative and quantitative perspective.”

Executives agreed that banking services are typically awarded on either a rotational basis or through a competitive bidding process.
“We determine who to use for which services based on pricing, knowledge in the marketplace, speed and efficiency, and whether we like to work with them and they like to work with us.”
“When we are awarding business, the first ticket to be at the table is participation in our revolving credit facility. After that, it’s a jump-ball situation where everyone has to compete on their product and pricing.”

of course, equitable distribution of business to core banking partners is a serious consideration for the corporate executives interviewed. One respondent said that if he feels the company has done a good job including everyone in leading a debt deal, for example, the company will ask three or four of its core banks with the appropriate capabilities to bid on another service opportunity, with the understanding that the best fee wins. Several, however, said that all work to core banks is initially put out to competitive bid. If the bids and products are equivalent, they then look at the overall allocation of business over a two- to three-year period to determine which bank needs more work to reward and compensate it for the bank’s credit commitment.

For study participants who work predominantly with one primary bank, the selection process is obviously simplified. However, all say they closely monitor their bank to make certain it is not abusing the relationship by charging unnecessarily high fees for products and services. One executive cautioned that it is important to also monitor bandwidth issues with a single banking partner to make certain the bank continues to have the resources and capacity to support your needs.

Performance evaluations
Respondents are fairly evenly divided on the use of formal versus informal performance review processes with their banking partners. Fifty-five percent describe their performance feedback as informal versus 45% who indicated they have formal performance evaluation systems in place (see Exhibit 14). Executives with more informal feedback processes still evaluate their banks – some as frequently as after each transaction, some when credit facilities are renewed, others “when it feels like it’s time” – but feedback is not based on a transparent set of key performance indicators or a predefined process. Several in this category said that they are planning to put more formal evaluation processes in place. Formal evaluation systems shared several common characteristics:

- A set timeline. Most conduct reviews annually, although one company conducts the process every 18 months and another prefers quarterly.
- Defined performance criteria. All have developed a set of both quantitative and qualitative metrics to measure performance. Most look at a combination of cost, knowledge of business, overall quality of service, response time, speed and efficiency of service, availability of people, and creativity and innovation.
- Collaborative effort. Many ask both the senior finance leaders and the functional people around the world who work “day-to-day in the trenches” with the banks to participate in the performance evaluation process, with their feedback gathered through either a survey questionnaire or phone conversations. Consider the process described by one executive: “On the one side we look at P&L, or the expected P&L they have with us, to understand how much money they make with us and what is the return they have on capital employed. But prior to that we do a qualitative survey with the 20 people who really deal with the banks on a daily basis – both in the head office and around the world. We ask everyone to give a rating on a mix of criteria: quality of the pitch – do they bring relevant ideas to the table; do they demonstrate knowledge of our business; are they willing to customize offerings; are they efficient and prompt responding to requests; are they too bureaucratic – is there too much legal documentation or very long processes to negotiate a deal; is their back office easy to work with or not, and are my back office clerks frustrated working with them; and bottom line, do we like their team?”
- Face-to-face meetings. All meet with the banks to share performance feedback and statistics on fees earned, provide constructive feedback, and share objectives and priorities for the upcoming year. Performance problems flagged in the reviews are monitored for improvement. As one executive explained, “If they haven’t been performing or there’s an issue, we will monitor them. And eventually, if the trend continues, they’ll go on a watch or be terminated, or conversely, if they have outstanding ratings, we may give them more money and more responsibility. It’s a carrot-and-stick approach, and a good way to broach honest, candid communication.”

Whether through formal or informal processes, executives agree that it is important to have open and frank discussions with the banks. There should be, as one interviewee said, “no ambiguity with any relationship.” One company hosts annual
“relationship review” meetings with all of its core banks to tell them what they like and don’t like. According to the executive with the company, “We are pretty open about the share of wallet they each earned, and we try to describe to them why they earned more or less than others.” During the meeting, the company presents a scatter chart that plots level of commitment to its capital facility on the x-axis against fees on the y-axis. As the executive explained, “You would expect that the scatter plot would be upward-sloping from the lower left-hand corner to the upper right-hand corner because more commitment should beget more fees. And sometimes that is the case, and sometimes for a variety of reasons it’s not. And we just have a conversation about it.”

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“The cost would drive me to change. If they are not cost-competitive compared to the others, they would be out. All of our primary banks should have the same risk appetite, and this should be reflected in comparable pricing.”

“When I need a bank, I need a bank. When we do a strategic initiative, I expect my primary bank to be with me. If they are not, I will reconsider the relationship.”

“It depends on the magnitude of the problem. If it’s consistent underperformance, I’ll terminate them. If it’s a disagreement, then we will have a conversation. I will closely monitor performance and then make a decision.”

“I had a situation three or four years ago where a primary bank was continually submitting non-competitive bids. I had to have a tough conversation with them, and they ultimately left our core group.”

“We would change if the bank was to downgrade to a low rating – our audit committee would challenge us.”

“I recently fired a bank for being relentlessly too pushy.”

“I always tell banks I’m not the person you need to make happy. You need to make my team happy. I’m not going to work with a bank because I like the person. It’s really bottom up. If you make my team’s life miserable, I will make you miserable until you make them happy or we call it quits.”

“I prefer to settle a dispute if at all possible rather than issuing RFPs, which are too much work.”
Benefits and challenges

Innovative ideas are highly regarded; inconsistency of services and pricing is top complaint

Sixty-seven percent of interviewees say that the value-added advice and insights provided by many of their core banks is the top benefit from their working relationship (see Exhibit 15). Many look to their primary group of banks as “thinking partners” and sounding boards for concepts and ideas, as well as for fiduciary guidance and information on the markets and the economy. As one executive explained, “They help us stay balanced and centered on key financial theories and are there to ‘sense check’ our thoughts, and that’s the most valuable thing to me.”

Half of all executives cited innovative ideas as one of the top benefits they receive from their core banks. Most agreed that the banks that take the time and interest to bring new ideas to the table – a new product offering or a different way to look at an old problem – are the ones they want to work with. As one interviewee explained, “We love it when one of our banks says to us, ‘Can we whiteboard with you? Tell us your pain points and let’s see if together we can build a solution to beta test.’”

However, one executive cautioned that banks that only come to pitch and sell products that are not applicable or are of minimum value to his company “waste his time and annoy him” and threaten their relationship status. The key for banks, according to the interviewees, is finding the right balance between service and sales.

There was some discussion about whether corporations should pay for advice or whether this should be a value-added, non-chargeable service for large corporate clients. Opinions varied, although most
“Obviously banks are commercial institutions and they have to sell things, but too many banks spend too much time trying to persuade corporate customers to buy things they don’t need.”
One of the most vocal and common complaints among interviewees is inconsistent pricing across the globe. Many say banks tend to have different regional or country-specific fee structures that are difficult and confusing for international corporations doing business in multiple geographies. One executive told us that he has a fee structure in place with his bank in Europe and the United States that he is pleased with, but he was very unhappy to discover that he is being charged “start-up” fees in Asia where his company is planning to grow. One executive suggested that “it would be great if banks could aggregate fees from a volume perspective across countries.” And another explained, “We are an international company, and we consider our bank to be a global relationship partner. We want the same fee structure in Asia, the US and Europe.”

Outdated processes and systems are a source of frustration for many corporate executives. There were several complaints that banks are not investing enough in data and technology upgrades to better interface with and serve their customers. As one executive explained, “There is an enormous amount of data exchanges between banks and corporations, and if you have ever been involved in that process, it’s quite ugly and difficult because you have all sorts of format issues and cut-off times and so on.” Several expressed disappointment in their banks’ performance, and in the industry overall, for their lack of investment in technology upgrades to improve the delivery of services and products. And close to one-third complained that their banks are too bureaucratic and inflexible.

As one interviewee in the technology sector said, “At the end of the day, they are big, massive, lumbering organizations with very outdated processes — oftentimes with old mainframe systems. This is a huge problem for those of us in the tech industry — they need to be nimble like us.”

Lack of consistency in quality of service and pricing across geographies is the top challenge in working with banks

The majority of interviewees (56%) say that their single biggest challenge in dealing with banks is the lack of consistency and quality of services across geographies (see Exhibit 16). As one executive explained, “The big challenge for us is to be better served as a global company. What we want is a bank that’s able to supply us with the same capacity and quality around the world. Because if they don’t, it doesn’t work.”

Some believe the problem is a lack of communication. Banks need to make it clear to their people around the world that major customers with significant global relationships need special attention. Some say the problem is that compensation and bonuses only reward local teams based on local business, so there is little incentive to spend time on customers who don’t generate much revenue – even if they are globally significant to the bank. Others think the problem is turnover of personnel, which one interviewee described as a “revolving door of people.” One treasurer told us that it is not uncommon for him to follow somebody good through three or four financial institutions. Many agree that too much churn in people erodes connections and reduces collective institutional knowledge, which can challenge the relationship. Several stressed the importance of having one global relationship manager to coordinate services, simplify interactions and serve as the “anchor” of the relationship.

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The continued market volatility, macroeconomic and geopolitical uncertainty, and the new – and still somewhat evolving – global and national regulatory reforms have clearly affected the relationships between corporations and their banking partners.

The lingering after-effects of the 2008 financial crisis and the ongoing European debt crisis have forced corporations to re-evaluate the stability of their core banking teams. Companies are on what one executive called “high alert” and are closely monitoring the performance of their banks and the attendant risks to their organizations.

The regulatory reforms are driving banks to strategically review and assess their businesses, and many are making substantial changes to their business models – shifting out of complex products and exiting businesses and geographies in an effort to remain profitable. The liquidity and capital regulations under Basel III have pressured banks to increase pricing to reflect their costs of complying with the new rules. This, in turn, has made corporate credit much more expensive, and corporate financial executives are exploring bond markets and other alternative sources of funding to avoid higher costs.

Despite these disruptive influences on corporate and banking interconnections, the executives interviewed emphasized that the traditional principles of what makes business relationships work – mutual commitment, dedication and trust – are, in fact, more important than ever in today’s turbulent environment. Corporate financial executives in the study described their banking relationships as long-term and stable partnerships. They take their relationship obligations with the banks very seriously and spend considerable time making certain that work is dispersed equitably across their banks. In return, they expect what one executive summarized as “dedication, consistency and commitment” from their core banks.

While executives are pleased overall with their current core team of banks, there are several performance categories that banks need to assess and improve to continue to effectively manage relationships with their important corporate clients. Service and product quality, transparency on key risk parameters, and innovation and technology are important areas where banks fall short of performance expectations. The banks that successfully address these issues will have a distinct competitive advantage in today’s challenging market.

The bottom line for the very sophisticated financial executives interviewed is that managing relationships – through good economic times and bad – boils down to the basics: stay close to your customers, listen to what they want and need, and consistently deliver quality services.
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