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EUROMONEY

Know who your friends are Annual Cash Management Debate

As in all other areas of financial services, the credit crunch has made its presence felt in international cash management. Banks and corporates have found their relationships and business practices severely tested and have found out who they can, and cannot, trust in a downturn. Now both sides are reassessing what they want from each other.

Know who your friends are

As in all other areas of financial services, the credit crunch has made its presence felt in international cash management. Banks and corporates have found their relationships and business practices severely tested and have found out who they can, and cannot, trust in a downturn

JL, J&W Associates What has been the impact of the liquidity crunch on your international cash management strategy?

TW, Motorola It has forced us to focus on where we invest our cash. Motorola has always followed a conservative investment policy but what is considered risky has changed. 'Triple-A money market fund' means something different to a year ago. Corporate treasurers have moved to become more conservative.

MS, Deutsche Bank With increased conservatism we're looking at how we are perceived as a liquidity provider and gatherer of funds. Are we using our strengths to position ourselves as a strong financial intermediary? Our focus used to be to keep the wheels turning, and all through this crisis, payment systems have worked and stocks have settled. But that is taken for granted now. So we are concentrating on how to make sure intraday limits are clear for the counterparty from all sides and that everyone understands the risk.

DJ, Shell Everybody is looking at investments more closely. Our strategy has been to diversify against our investment counterparties and look at the credit remits we have with those banks. We have had excess cash during this period, so it has been important to focus on a risk of return rather than a rate of return.

DM, RBS That said, banks are seeing clients increasingly direct funds towards triple-A-rated vehicles now, where perhaps they had been happy to keep things with their banks overnight, or for an extended period of overnight monies. We experience a lot of risk diversification on counterparties as corporate clients are less likely to be sole banked. Our strategy is to support that diversification and facilitate it.

JL, J&W Associates: Olivier, how has your strategy moved?

OB, Volkswagen Happily, the group is liquid, so we could invest in short-term secure instruments to ensure liquidity stayed safe. On the other hand, the treasury centre in Brussels financing exports is structurally short. Some banks carried on lending us money. Some didn't. We used to be more relaxed about reciprocity but my strategy has changed. Now the response is: 'If you lend me your balance sheet I will lend you my monies'.

FT, ING Corporates are putting more emphasis on cutting costs and we are looking at products that can help them. We see a move towards national and regional solutions.

CH, Lloyds TSB The credit crunch hasn't changed our strategy but the market has enabled it. It's clear that over the last 12 months strategies and priorities for corporate treasurers have changed. Of course, maximizing income and reducing cost are still important but managing risk has shot right to the top of their agenda. This focus on capital protection and counterparty risk plays right to Lloyds

Executive summary

- The credit crunch has pushed companies to focus on where they invest cash
- Even triple-A funds carry some risk now
- The crunch has also revealed which relationships are firm – and which are not
- Sepa is still in its infancy and has a long way to go yet

TSB's strengths, making treasurers far more responsive to challenges about comfort levels with current providers and receptive to the solutions we can offer.

RM, Citi The strategy at Citi is unchanged but the balance of solutions that customers are asking for has. Liquidity is king, and there is innovation around working with customers to release trapped liquidity, and that includes managing associated risks. There is concern about particular countries, particular banking systems. Advising customers on how to manage those risks that trap liquidity is new. There is a resurgence of trade instruments for risk mitigation. There has also been a shift in emphasis towards transparency, CDS, how reflective spreads are and how much they are based on the market as opposed to fundamental factors.

Supplier investment

JL, J&W Associates What about increasing your investment in this business?

MS, Deutsche Bank Nobody has argued with the transaction bank budget this year, because the only thing that kept the wheels turning is the investments that we have already made. The investment spend is not even a discussion.

DM, RBS Our investment appetite is undiminished – you can't do this business without substantial investment in technology.

JL, J&W Associates How are you managing your relationships with banks?

OB, Volkswagen We have a centralized risk management department in Germany and we've been working more closely than ever with them. We're watching things evolve and how the banks behave in the turmoil and you draw lessons from it. You make a note of who stood by you and who didn't, and that stays with you for years. There are



banks that Volkswagen blacklisted years ago. We've been through three group treasurers and two CFOs, but some are still blacklisted.

DM, RBS There is deleveraging of balance sheets in the banking sector, and a lot of counterparty risk is being dropped, but that is vastly outweighed by the additional network services and products being provided. We are seeing a diluting of relationships. Clients are spreading their risk across a variety of banks, and banks are in turn walking away from some relationships. We are dependent on relationships being strong, so inevitably there will be some attrition.

TW, Motorola We have always placed high reliance on building long-term, strong bank relationships and that allows for changes in the business cycle. We want to be fair and equitable in how we distribute our business. We hope there is such a thing as reciprocity and long-term trust, and that if you behave correctly your business partners will behave likewise.

CH, Lloyds TSB In recent years with liquidity and credit readily and relatively cheaply available, there has been a tendency for corporates to spread their ancillary business among niche providers who perhaps don't make a wider commitment to the corporate. As more treasurers become conscious that credit lines are up for renewal, however, many are asking if a bank is putting in a substantial contribution to the credit, then should a corporate treasurer place cash business elsewhere, if there is a credible offer?

OB, Volkswagen For many years, Volkswagen has had a strategy whereby the banks committed to lending on a back-up line can pitch for the rest of the business. So about 20 banks are in line for the global business. As a global corporate you have to work with local banks as well of course, particularly in emerging countries, and you have to give them some business as well. But the strategy is there, and is strictly adhered to.

Back to basics

JL, J&W Associates Is relationship management going back to basics?

FT, ING We focus our resources on core relationships and core markets. We support those relationships with credit facilities and in return we expect the full breadth of business; not only credit, but payments, cash management and all other products and services we offer, if we are competitive. It's very much now about a reciprocal relationship for the long term and that has to work for both sides.

TW, Motorola It is harsh if you are one of the relationships let go. That could impact the suppliers and business partners of your important main relationships.

FT, ING When corporates spread liquidity to spread risk, they do

the same thing. Everybody wants credit these days. We have to prioritize and allocate resources to customers we can bank with in the long term.

JL, J&W Associates It sounds as if you have too many customers, and you've taken on customers that you shouldn't have?

FT, ING After a decade of substantial growth, both banks and corporates have seen expansion in too many different and often unnecessary areas. We're all refocusing on our core business, core markets and core banking activities. Certainly for the coming years it's back to the real core of banking.

MS, Deutsche Bank Assuming the good times would continue made for a flabby relationship structure. Some corporates and banks were very disciplined. We are concentrating on where we have strong partnerships as opposed to chasing others. Not many corporates are going to change banks in a down market, unless they are tapped down on credit. And that is not the time to go searching anyway. A crisis does bring out who your friends are, and there have been tough discussions.

RM, Citi We have always been clear about who we want to provide services to. Our ingredients are simple: a global footprint, investment in technology, innovation and the ability to connect those three. Our focus has been more on multi-geography than single-geography clients. As long as you have chosen a customer base well, you have fewer problems.

DJ, Shell We have a conservative treasury policy and we have a defined number of relationship banks to provide back-up facilities. The selection process for banking partners is thorough, particularly as we have been downsizing relationships over the last 10 years.

JL, J&W Associates Is that downsizing going to continue?

DJ, Shell We are often asked if we would ever move to the global banking model and my answer is always no. There is no one bank that could meet our requirements. During this period we haven't tried to find new bank relationships. We have a range of counterparties and we have had to be focused and disciplined in terms of counterparty limits that we have with those banks and where we invest our funds.

RM, Citi You benefit from having good discipline around choosing who you deal with. But it does get split across whether you are a net liquidity provider or a net borrower. To flip it around, I don't know whether any banks would want to be the sole bank to any corporate body.

JL, J&W Associates Two years ago Citi was saying that that was the ultimate, and that is what you wanted.

Participants



Jack Large (JL – chair) is a partner at J&W Associates and is an independent consultant working in cash and treasury management and payment cards. He provides consultancy services and training seminars for financial institutions, payment system companies and multinational corporations.



David Manson (DM) is head of international cash management for Royal Bank of Scotland. His group is responsible for managing the bank's provision of payments and global treasury and investment management solutions for corporates and financial institutions. He has more than 20 years' experience in international banking.



Tim Westcott (TW) has more than 20 years' experience in treasury management, the last 15 working for Motorola in the UK and US. He is responsible for managing Motorola's EMEA treasury operation, and the company's global netting system. He is a chartered accountant and a Fellow of the Association of Corporate Treasurers.



Colin Hemsley (CH) is head of major corporate and financial institutions sales, corporate banking, at Lloyds TSB Corporate Markets. He has more than 30 years' experience in cash management and trade finance. He heads a team of cash and trade experts responsible for developing and implementing financial supply chain solutions.



Rajesh Mehta (RM) is the head of treasury and trade solutions for Citi Global Transaction Services in EMEA. He is responsible for the provision of cash management, treasury and trade solutions to a broad range of customers including multinational corporations, top local companies and financial institutions.



Darsh Johal (DJ) is head of global cash management at Shell. He is responsible for the global back office as well as cash management services, including bank relationship management, contract and SLA management, implementation and strategy. Before joining Shell, he worked for Bank of America and Mobil Oil.



Olivier Brissaud (OB) joined Volkswagen as treasurer of the coordination centre in Brussels in 1989 after eight years of correspondent and corporate banking with BBL (now ING). He is managing director of Volkswagen Group Services, a worldwide treasury shared service centre for the Volkswagen Group.



Frank Taal (FT) is global head of product management of payments and cash management for SMEs, (mid-) corporates and financial institutions at ING. He has more than 25 years' experience in retail and wholesale banking, of which 15 have been in payments and cash management, liquidity products and e-business.



Marilyn Spearing (MS) is global head of trade finance and cash management corporates, Global Transaction Banking, at Deutsche Bank. GTB covers Deutsche Bank's payments, cash management, trade finance, and trust and securities services. She joined Deutsche Bank in August 2006 with 25 years of banking experience.



RM, Citi That has never been the intent. It is not healthy to be monopolistic. You can never provide everything. Being sole provider puts you in an untenable situation and it gives both sides very few choices.

CH, Lloyds TSB There is more focus on transparency now. Liquidity has been taken out by banks disappearing or downsizing. Those banks that have been secure, conservative and prudent are not going to take up that surplus need in a tough market. As a result, some pricing had become very thin; this is now moving up to reflect the shortage of liquidity in the market. But the key thing is that strong relationship banks will look to stick with their clients throughout the cycle. Corporates looking for a purely transactional approach will find it more difficult to find partners.

OB, Volkswagen We have been careful in selecting banks, but despite this, a number have disappeared. Fortis, Wachovia and Dresdner Bank were not considered bad banks. We will probably now have to increase the number of counterparties to keep a balanced list of banks committed through credit lines to our business. We are also monitoring who the shareholders of our main banks will be. If they are held by sovereign funds or governments, then the bank may have a government bias on some industries or products.

CH, Lloyds TSB We have been through a period where know-your-customer has been a big issue. The impact of recent months is we are now we are entering a period where know-your-bank will be a key question that a corporate's board of directors will be expected to answer.

TW, Motorola The banks here are justifying Mark Twain's quote: 'Bankers are people that lend you an umbrella when the sun is shining, and want it back when it is raining.' Many small corporates that were encouraged to borrow in the boom times are now worried that their facilities will be withdrawn. How are they going to find another bank? Is there a second tier of banks they can move to?

Technical advances

JL, J&W Associates What techniques are improving cash and liquidity management?

DM, RBS There is some innovative work to give clients extra value outside the immediate domicile of where the funds are. Cross-currency notional pooling is one way to do that. In some countries, we also do earnings credit rates, where you look at a client's wallet and what it is costing their total banking. If there are balances in certain countries, you can offset banking fees with that. There are bonus multipliers and tiered structures, where the more countries you bank in, the higher the bonus rates you get on your interest. I would put forward one caveat, though: it is not the be all and end all for a client to try to get

every last penny out of every single country. These transactions have to be economical.

RM, Citi The crunch is giving more fillip to getting cash and trade business together, for three reasons. Corporates are finally focusing on unleashing working capital. That means using receivables with liquid instruments to create liquidity, and on the supplier side supporting more middle and SME retail suppliers to large corporates. Secondly there is still a longer tail in the crisis in some emerging markets. As sales shift to those markets, you see a resurgence in some trade instruments. We saw it in Kenya this year. A lot of stuff that moved to open account moved back to letters of credit and standbys. We are seeing it as demand continues in Russia, the Middle East and Africa. Third is risk mitigation, on sovereign concerns as well as trade counterparties.

CH, Lloyds TSB Many corporates have started implementing working capital management programmes. One driver is changing cash positions. One corporate that was cash generative six months ago is now cash-consuming. So getting cash into the business is one issue, and risk management is key. We have done a lot of work on supplier finance, but there has been very slow take-up. However, corporates are now looking at that as a way of generating cash and capital. There is a return to traditional tools. We are working with a corporate acquisition and a vendor desperate for cash and we are using good old-fashioned bills of exchange spread over three years, and we will discount those in favour of the vendor. Tools are evolving, but there is this back-to-basics theme.

OB, Volkswagen Let me put on my European Association of Corporate Treasurers hat. In Italy, France and Spain they have instruments missing from the Sepa standardization plan, that enable you to do confirming and reverse factoring more efficiently. We are working on those instruments in the so-called Latin club. Sepa is just an enabler. If the payments work properly and in a standardized manner, all of the financial value chain can be standardized, bringing value and efficiency from beginning to end.

RM, Citi That is the one thing that will come out of this. Trade is usually a better structured form of finance. Banks prefer it and corporates would be open to it. The second piece is the supply chain. When you bring together the risk and the need for funding, these things will move from corner office to mainstream. The third piece is: 'We have to invest in Sepa, where is the value going to come out?' We can use the current environment to build momentum around doing something quickly.

JL, J&W Associates But I want you to help me now. This is years away.



MS, Deutsche Bank A year ago, when we spoke to corporate treasury about supply chain the discussion with the purchasing department was efficiency followed by balance sheet ratios. Now it is liquidity, the receivables financing or the supplier financing. It depends where the strain is for each corporate. The big programmes we were trying with invoice capture, suppliers invoicing and re-engineering the purchasing process are no longer in discussion. It's how quickly we can get a programme up that will provide the secure finance.

RM, Citi I don't think there is time to work towards an industry standard. There will be some finance-driven quick hits. The focus has been on creating the best eco-system and then figuring out which deals will get done. But that is going to change.

CH, Lloyds TSB There seems to be a more strategic demand from corporates to look at something all encompassing. We need to continue to do the tactical in the short term, but also develop standards that enable us to deliver at a later stage – we need to demonstrate to corporates that we are listening and responding to their needs.

RM, Citi We started with the assumption that the corporate sponsor has so much power he can sign up suppliers just like that. But the supplier needs the financing, and there has never been a stronger imperative to move this along.

DM, RBS The pressure on credit can be on the buyer or the supplier. That is one reason for the push toward the opportunities presented by the pre-shipment element. Good risk-sharing models as an integral part of the supply-financing proposition are one way to move forward.

FT, ING You need standardization otherwise they are more or less customer proprietary solutions. The banks in the EBA are working towards this, but it will take a couple of years before there is an industry standard.

JL, J&W Associates Even if you have a standard, it takes years for people to adopt it.

FT, ING If you want a real market in which you can buy and sell receivables, and finance them, you need interoperability.

RM, Citi It is about financing today, not about how streamlined it is.

DM, RBS It is also redefining what the supply chain is for and the bank's role in financing that supply chain. Some corporates use financing to strengthen supplier loyalty, some to extend payment terms. It has a variety of uses, and the objectives for any standard will need to be specified.

CH, Lloyds TSB With all the present focus on timely payments we have even seen interest from some corporates because it will automate their

payments programme and make it more efficient.

OB, Volkswagen The banks may have spare resources. We don't. We in corporate treasuries have been squeezed down to bare essentials, so going back to manual bills of exchanges is unthinkable. We have to go for standards.

RM, Citi There's a fair amount of discomfort with new instruments. The bill of exchange works. People need the comfort of an instrument they know.

JL, J&W Associates Do you have examples of things working in distributor finance?

MS, Deutsche Bank We have found a number of ways, either in-country or cross-border, of getting more sales. It's receivables finance by another name.

TW, Motorola Taking credit risk off your balance sheet is key. Why would a corporate that has cash in the bank want to factor or discount? With the cost of factoring or discounting when the interest rate is a little above zero, there is no point in escalating collections unless you want to get rid of credit risk. Customers short of cash are in a different position, with a high level of urgency to maximize cashflow.

RM, Citi Or they are concerned about the country at the other end. As your market extends to more developing countries there is a lot of bad credit by counterparty or by country. So it is risk, or it is cash.

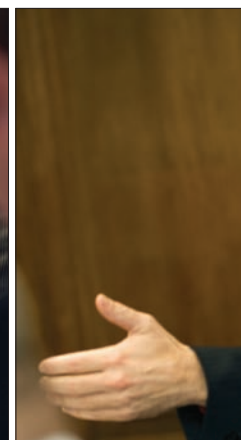
TW, Motorola In some emerging markets, banks don't want to take the risk, or they will charge you a huge amount. It is not easy for the corporate.

RM, Citi Increasingly it is going to be an originate-to-distribute rather than originate-to-hold model, but distributing the paper off-site. There is a lot of that in the cross-border space, and it will come domestically.

OB, Volkswagen The reverse factoring revival is spreading well. We can finance our suppliers on our balance sheet, especially in crisis periods. We depend on them and we can act quicker than banks in a difficult situation themselves.

JL, J&W Associates It is an attractive proposition but it takes a while to set up.

CH, Lloyds TSB It does not take that long. The challenge is making that spiritual decision to move with it, and corporates have different reasons for doing it. Sometimes it is to raise extra capital, sometimes just to help suppliers. We can be up and running within three months, once a decision has been made. But it is difficult to get the decision from the corporate treasury and then from the board. We try to take that work away in terms of anticipating what the potential value is. Many programmes have not advanced quickly because



of conflict between procurement and treasury. But now efficiency is less of an issue compared with liquidity.

DJ, Shell We've been discussing supply chain financing for a long time. We have some limited programmes but it is difficult to get this up and running because most time is spent trying to develop the solution and get the buy-in, which is outside our control in treasury. That is one reason why bankers can't penetrate the corporate organization to develop this business. Your counterparties work in treasury, not in procurement, sales or marketing. Our main focus is on core treasury activities.

CH, Lloyds TSB Supplier finance programmes allow buyers to standardize supplier terms that have grown up organically. Some are at 25 days, some at 45 or 10. It is very efficient to make them all 60, while still allowing payment to flow through. Buyers find that standardization and efficiency attractive.

The Sepa impact

JL, J&W Associates When we talk about standardization we can't avoid Sepa. Frank, you are evangelical about this.

FT, ING A survey sponsored by the EACT says Sepa has been a non-event for corporates. It is a new system and not all the features are there yet. However, for a piloting year, it's not been too bad. Corporates can't hide from this, because they will increasingly receive Sepa payments, and will have to adjust to accommodate them. Banks and corporates also neglect the fact that direct debit products will be impacted heavily by the EU's Payment Services Directive. The second half of 2009 will see Sepa payments grow and an increase in consumers, corporates and government bodies involved in Sepa.

TW, Motorola This indicates the political classes are out of touch. They make a big deal about introducing this to save us all money, but any smart corporate has worked out a middle-ware solution, or changed procedures to make the payments more efficiently already. It won't happen that quickly, so I'm not going to waste any sleep over this.

FT, ING It is politically driven. It has to do with becoming one European market. But it is not going away. The benefit will come when the first stage is there, and we can start developing pan-European products.

OB, Volkswagen Sepa has been a non-event for treasurers so far because it is all about bankers being able to talk to each other. Once we get there, we can start doing real business, ie, connecting the banks and the customers in a standardized manner.

DJ, Shell Our decision is to do nothing at this point and take a wait-and-

see approach. Why would I fragment my implementation or operation to have part of my transactions going through Sepa credit transfers when I can't operate direct debits through the same process?

RM, Citi Currently, only 1.5% of eligible euro credit transfers are being made via Sepa. There are two parts to explaining this: central bank reporting requirements have not been abolished yet and therefore continue to be a barrier in Sepa; also domestic payment schemes allow for a number of specific fields to designate the purpose of a payment, for example payroll numbers, which are not available in Sepa. Combined with the absence of a value date field in Sepa, this means you cannot unplug the legacy systems yet. Changes to the credit transfer scheme in 2009 will address some of these needs and we're starting to see some of our clients moving towards Sepa as a consequence.

MS, Deutsche Bank If you are a centralized treasury, structured efficiently, you won't get much out of Sepa right now. As a provider, we needed to be in a position to handle it for banks that don't want to make the investment. The business cases that we hear from clients are around the efficiencies that we have driven but they haven't been able to. They have seen benefits across the network. If you look at a credit transfer across 30 countries, they see benefit from better value dating, clarity over the purpose of that payment and access. We have done that.

FT, ING Customers that want to centralize are choosing the Sepa solution. Why should they set up accounts in all these countries? Just take an account in the Netherlands or Belgium, which are the cheapest countries from a payment perspective, and also have the best service. There are customers with a huge number of euro cross-border payments. They now have one file, one solution.

CH, Lloyds TSB From Lloyds TSB's perspective we too have seen little interest from corporates in Sepa credit but debits do seem to offer new opportunities in a number of sectors such as insurance, telecoms, and media and publishing. If that real demand from corporates for the debit piece isn't there, then we do have a problem.

DJ, Shell There will be a demand for the direct debits. The only Sepa discussion we have internally is our credit people asking about direct debit development. In some countries, you could collect the direct debits on same day value, but the new model is going to be D+ or whatever. We have moved from a best-in-class solution for some countries to a standard model that increases my credit exposure. I would like the standardization, but I don't want to increase my credit exposure.

JL, J&W Associates What have you done to standardize and improve



cash management?

DJ, Shell We have streamlined our banking relationships, bank accounts structures and liquidity structures. We have implemented a single global banking system to communicate with our primary banks. We have been able to do that on a global scale approaching 65 countries with six primary banks, processing 15 million transactions a year, worth more than €4 billion a day. We also have a master agreement framework with each bank. We need to be sure that they understand what we expect from them. In a way we are already applying a mini-Sepa as we have outsourced our transaction processing to our primary banks so we don't have to deal with all the different clearing systems.

JL, J&W Associates What works and what doesn't in standardization across the Volkswagen group?

OB, Volkswagen I run a shared service centre, which is B2B. I will learn more when our payment factory starts on April 1. I will have 250 legal entities on the platform that will perform all their outgoing payments through us by the end of 2010. Looking at the machinery and technology you need to concentrate all that information in one place, you realize the complexity of the landscape. You cannot outsource a process that is not clean. As long as you do not have transparency, it's just garbage in, garbage out. Outsourcing is that last mile on the payment route to the banks, because they are the contact with your customers and to the individual. You cannot do it because it is not your business and you are not a bank. But, if there's no transparency, you do not know what challenges your partners face, and it becomes difficult to assess a fair price. Standards advocate for transparency, and the other way round.

TW, Motorola We use a global netting system to make all our payments outside north America. We built our own system in the 1990s before the banks had a satisfactory solution. Outside north America, all the payments are made through one system. That is very efficient when you also hedge all those payments and settle those hedges through the netting system, so that all the payments are fully hedged to the payment. Globally for non-local functional currency, all payments, receipts and the associated foreign exchange go through the same system.

JL, J&W Associates There's a range of technology standards coming through. What is going to make the biggest impact?

CH, Lloyds TSB Our task is to make it as easy as possible for clients to give us instructions using an agreed format, whether that be a host-to-host coming directly out of their treasury system, using Swift, or whether they want to go through proprietary electronic banking

systems. We have to provide that flexibility and we have to agree standards to do that. That also applies to the trade side, where to unlock the value you need agreed standards.

DM, RBS There is some sharp technology coming into play. If we can adopt these standards, naturally it speeds things up by avoiding touch points and expensive manual intervention in the transaction. Ultimately, banks and corporates are heading into the scale area, where formats have to be consistent.

JL, J&W Associates Why do you need standards?

FT, ING Because it is extremely expensive. In our payment engine we support over 300 standards. There are seven series of Edifact standards, seven families with small deviations within those. You can't keep on adding standards in all kinds of varieties. It is not for the benefit of customers. Consistency of service is another issue. It's extremely difficult to provide reliable information to customers in various countries and show transparently what you can provide with these local deviations. If you want to bank pan-European, you need pan-European standards.

MS, Deutsche Bank Every client wants me to adopt standards, so long as they're theirs. I win business on my ability to customize. If the world moves towards a common standard, we will benefit, but how much money am I going to spend in that movement? I am involved with Swift on corporate access and digital identities coming in for bank account management. I can see a business case, but I still have to replace my proprietary with an industry standard.

RM, Citi It's the client and the market that is the ultimate arbiter of the relative merits of standard versus proprietary technologies, and we are therefore committed to maintaining our investment and support for both in line with the needs of our clients. From an internal perspective, the cost and quality efficiencies of standardization are attractive and on the client side the economics are often similar, so we expect the market to move further in that direction.

Beyond the credit crunch

JL, J&W Associates There will come a time when the credit crunch lack of liquidity stabilizes. Say that's five years away. Will your priorities have changed?

DJ, Shell Everybody wants a better return. The operational impact of the crunch is that we have to do more short-term investments, and focus on cash forecasting and counterparty assessment. Eventually we will reduce the effort in those areas and return to a longer-term investment strategy.

MS, Deutsche Bank The heightened awareness of risk management

will continue because there were surprises. When it is stable, there will be a broader remit for risk management. The second priority will be centralization. There will be more central control, oversight and consistent policy around the group, and into central and regional treasuries. Companies were caught off guard by the inability to raise funds in the short-term market. Where is my stable source of funds and how is that organized? Can I access funds? Do I have an interest optimization programme? Those decisions will come in, but only when you have a centralized view of what to do when things become more difficult.

TW, Motorola There is going to be more centralization. The way to reduce costs is to have more automation. We expect the banks to help us automate processes; not necessarily change them, but have less manual intervention. There will be pressure on costs, so the banks will need to pass on their efficiency savings and reduce their fees.

DM, RBS We are going to be more heavily regulated. This is a challenging time for everyone – corporates, financial institutions, even regulators. We can expect Basle III, Sarbanes II and a whole wealth of new regulations. Banks will have to be cooperative in how we manage that. A differentiator for banks will be who can make it as painless as possible for their clients. Perhaps through standards, through cooperation we can keep it off clients' desks. The top-performing banks will be those who advise cleverly on this and minimize the burden on their customers.

CH, Lloyds TSB Managing risk will stay on the agenda. There will be increased focus on visibility and control of cash. That will be important to fulfil treasury policy, not just for maximizing income but as a risk mitigator. There will be increased focus on supply chain, because of the developing desire to unlock that, and it is the challenge for banks to provide treasurers with the tools. We must build and maintain confidence. Corporates need to know banking partners will be there for the long term.

OB, Volkswagen More often than not we tend to forget too quickly what has happened in the past. We need to centralize knowledge and history in the risk management area. Then we should advocate for better – not more – regulation, and we can all contribute to that.

RM, Citi Corporates are going to stress test liquidity and counterparty risk for the outlying; if they were doing one standard deviation situations before, they will do three. The standard expected of automation with regards to corporates' reaction time should there be such a crisis again will be a lot faster. There will be a greater reinsertion of currency risk into the mix, more multicurrency-ism in products because that is an emerging risk. Wholesale funding and reliance thereon will reduce on the banking side. Customer deposits will be important. Risk management will become more horizontal than vertical. The difference between how an activity gets done in the hedge fund or private equity industry, compared with the bank, will disappear. Likewise, comparing how a risk is managed in a credit area with a market risk area. There will be a reassessment of the products and services provided by banks, especially those considered lower risk simply because they were intraday.

Transparency imperatives

JL, J&W Associates Is the need for transparency changing what is required in cash management delivery?

RM, Citi Knowing your bank and your trading counterparty is one element of the transparency issue, rather than relying on external

ratings. Corporates are going to look to a different level of transparency. Confidence relies on more than published data. Relationship transparency will be more important because the universal confidence needed requires total disclosure. The second element is the location of risks, who your counterparties are, where cash is and how you get at it.

DJ, Shell Banks must understand that the initial problem was not corporates losing confidence in banks. It was banks losing confidence in each other.

MS, Deutsche Bank The questions I would put to a transaction bank would be: Where do you fit? What is your source of funding? Why are you important within that organization? Are you generating enough return to keep investment going? If I am investing with you, what are my choices? You should be able to understand how the processing works and have checked for solidity and robustness on business continuity. Those elements differentiate one transaction from another.

FT, ING It is also very important that clients understand your strategy, that that strategy is consistent and that you behave according to that strategy. That way you become reliable.

DM, RBS There's a different buying criteria in terms of how corporates assign surplus balances. I foresee the same general delivery model in the client sector, but it will be more aggressively managed. A deep scour is taking place to bring funds into the centre and gain control, visibility and optimized returns. The gentlemanly approach of leaving funds with a few banks to keep them happy because they are providing local services will disappear.

CH, Lloyds TSB We will be doing more insourcing for our banking partners. We may choose to outsource parts of that. We can be transparent around that. There will be a shift away from traditional white labelling and we are comfortable to be on both sides.

JL, J&W Associates What would give you confidence to buy from a bank?

DJ, Shell Inevitably there will be more infrastructure changes. The rating agencies have been undermined so they will have to review models and that will help the transparency needed to make decisions about who to bank with. It is not going to happen easily. A bank may claim it's sound, but we don't know what is happening behind the scenes and I expect to see more stringent regulation being introduced. I can't see anything else that will bring back confidence.

TW, Motorola We need credit rating agencies that we can rely on. Maybe they should do something radical like close down the existing ones and set up a new one. They are discredited. People have to be made accountable. We need a fundamental review.

OB, Volkswagen One of the reasons we are angry about rating agencies is not because they have failed, but because we failed to properly use the information they gave us. We misunderstood the message because corporate treasurers have to outsource some risk analysis. Our risk management departments have been downsized in the past, so we outsourced our risk measurement to rating agencies. It goes back to what you outsource and to whom. The tendency would be to reinforce your own risk management departments that are closely linked to treasury. That would mean insourcing part of the analysis, because we don't trust rating agencies any more. The solution lies probably inbetween better regulation, not only related to rating agencies, and reinforcing your own risk management capabilities.



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