

## Partnership, stability and growth in the eye of the storm



*The slowing European economy and the impact of the global credit crunch are making it increasingly difficult for corporates to drive and protect liquidity. Three bankers at Lloyds TSB Corporate Markets tell Treasury Perspectives how their partnership approach can deliver growth and stability for corporates even in this testing environment*



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**Treasury Perspectives:** So, what we are seeing here is a much more embedded approach to managing corporate customers, where does this start and how do you get away from a one-size fits all approach without draining the resources of the bank?

**RD:** Well it starts with a relationship management team that has a deep understanding of its clients and knows the banks product portfolio intuitively. This involves an approach that sees those clients as businesses with potential to grow, prosper and run more efficiently rather than vehicles for the bank's products. Our teams are sector focused (our specialists are dedicated to the core corporate sectors), with managers and directors that have built strong client relationships. But by also recruiting from different disciplines – we have former group treasurers on board for instance – you get a much greater spread of skills to identify value added solutions for our clients.

**CF:** But before we take any practical steps we first encourage the client to look at cash management, funding and risk management in a much more holistic way – seeing cash inflows, cash outflows, risk management and capital structure as pillars that interact to create a much tighter liquidity and funding position for the company.

**AC:** Clare is right, driving efficiency starts by unlocking more working capital from the supply-chain. So, we will sit with the treasurer or FD (and in some cases with the supply-chain manager) to unlock as much working capital as possible. This often comes down to gaining more control of the information flows in its value-chain – that is a crucial factor in extracting value in trade.

**Treasury Perspectives:** But cash management is a mantra that most banks repeat, what makes the Lloyds TSB Corporate Markets offering any different?

**RD:** Firstly, our relationships are long-term and have great depth, in many cases built over years, meaning we really do understand the customers business and value-chain. Secondly, products like supplier, trade and invoice finance are just the first step in a much longer process – to build a platform for the management team to achieve its growth ambitions.

**AC:** Exactly, in the first instance, the key objectives are to maximise and protect the returns on cash by ensuring the company has sufficient liquidity to meet its obligations in the short term. We look at simple things like minimising cash shortfalls, using debit and credit balances to best effect, or minimising administration-related costs. Initially, we tailor the solution to complement the dynamics of the company's structure and supply-chain. This could involve anything from rationalising treasury and back office operations, to cash concentration, pooling and centrally co-ordinated FX payments or something as straightforward as receivables repatriation.

**Treasury Perspectives:** That's all fine and well, but what does this actually mean?

**AC:** Okay well take a recent supplier financing scheme we established for a major UK telecommunications company. The scheme offered the company's suppliers attractive financing terms, priced on the superior credit rating of the telecoms company. Their terms of trade were considerably extended and cash to the suppliers could be made available immediately if required, on approval of their invoices. The telecoms company offered 2,000 of its suppliers – ranging from large multinational companies to small specialist companies – the option of continuing with their existing terms of trade or becoming part of the scheme. This specialist invoice discounting scheme gave suppliers cash immediately, at a finer margin than normally available to them, or the choice to receive full invoice value on settlement day. The scheme has raised tens of millions of pounds in additional cash flow for the telecoms company. It is also proving popular with many suppliers.

**CF:** And, you know, getting involved with a company to this extent lays the foundations for us to really add-value over the corporate life-cycle. While Anne's team sit down and look at the company's external position – looking at cash leakages in the value-chain – in our financial markets business we have a separate Asset Liability Management (ALM) team that looks in detail at the client's internal capital structure and all aspects of financial risks inherent in the company's operations. Liquidity is key too. During the current crisis we have seen liquidity move further and further up the corporate agenda – we no longer only have cash managers driving this but today many FDs are focusing daily on the creation and protection of liquidity. In order for banks to be able to look for more creative ways to help them they need to have a deep understanding of the client so that funding and risk solutions can be turned around swiftly which is no easy task in these current markets.

**Treasury Perspectives:** But risk management is predominantly about managing a limited number of asset classes mainly commodities, interest rates, foreign exchange. Surely there are only a handful of ways to skin that risk management cat?

**CF:** Think of it this way. On the one hand, we can look at a company's capital structure and see how it compares to industry peers, how interest rates are managed, and we see exactly how FX risk impacts cash flows. And on the other, we understand the dynamics of the sector and the business – so coupled together both are very powerful tools to devise creative, and sometimes cheaper ways for the corporate to hedge its risks. Think of a major TV network which generates 85% of its revenues from advertising (60% of which is advertising from banks). If we can establish a direct correlation between the widening of bank credit spreads and a drop off in advertising spend at those banks then we will have a basis upon which to link bank credit spreads to the client's debt payments. Thereby creating an economic hedge.

**RD:** That is just one example which goes to show how financial markets have evolved into a much wider range of asset classes such as inflation, credit, energy, property, to name a few. All of these are risks that most corporations have some exposure to but have traditionally been outside the hedging radar of most. Our deep understanding of the customer businesses helps us to structure solutions across multiple asset classes providing a whole new dimension to corporate risk management.

**AC:** I think it's important to note again though, that the ALM team would simply not be able to apply these solutions as effectively if we did not have relationship teams that really understand the dynamics of their customers' sectors. This is notwithstanding the product specialists that share the information they gain from, for instance, sitting with the FD or Treasurer to build efficient financial supply-chains.



**Treasury Perspectives:** So you're saying it's about information flows as much as anything, Surely that should be fundamental to every bank's approach?

**RD:** Yes, but it depends on the level of detail you want to go to. I know other banks would probably say that it doesn't take a huge leap to understand how a business in a given sector is run. However that is only a starting point. Understanding in detail how individual businesses run, their historical sector performance and about the internal workings (back office, structure of the finance department), not to mention the softer aspects like the strength of the management team takes an awful lot more effort.

**CF:** Yes, many other banks excel at product delivery too, but to tie them all together by blending fluid relationship teams and products in a sector driven way is something that very few can really say they offer. And as a Aaa-rated bank\* – that has retained that top-level rating in one of the most turbulent environments this sector has ever seen – we know a thing or two about prudence. Of course liquidity and risk management in this environment also requires creativity but this is the exciting opportunity for the bank's risk management coverage teams working hand in hand with colleagues from debt capital markets, cash management and the relationship teams.

**AC:** It is vital that companies really appreciate what Richard means by 'relationship'. It is a term we see banks tout a lot. Yet to get to a point where your bank is creating efficiency down your supply chain and using some of the knowledge gained at this stage to tighten risk management policies further down the line is something completely different. Looking to create value at one end with efficient cash management and ensuring the company retains it at the other end with watertight risk management.

**RD:** Yes, looking at an overall, and ever changing, solution that supports the growth of the business.

**CF:** And service is very important at every level of that journey. For instance, we have an in-house IFRS team that sits with corporate treasurers to overcome accounting issues. But the credit crunch has resulted in service delivery moving beyond that. Throughout the credit crunch we have seen corporates struggle to obtain sufficient funding from traditional sources, while at the same time they have faced extremely volatile financial markets across all asset classes. It therefore takes a dynamic bank to stay in tune with each individual's liquidity and risk options – understanding each client's short-term and long-term funding constraints as well as their sector. ■