

Credit is Driving Changes in Bank Relationships

Credit issues have had a dramatic impact on the landscape of bank relationships as the Great Recession of 2009 put greater stress on the banking component of credit resources. In its 2010 Treasury Management Monitor™, Phoenix-Hecht reported an extraordinary increase in the number of banking relationships used by companies with less than \$500 million in annual revenues. Larger corporations also showed a significant but smaller increase. It is expected that credit commitments, both new and expanding, will be the lead factor in companies awarding new treasury management business for at least the next year.

To best understand what corporations look for in a new banking relationship, it is helpful to analyze the factors that are the reasons companies end a bank relationship. Two factors have long been associated with terminating a banking relationship: credit availability and customer service. However, the influence of credit and service pricing grew significantly at smaller companies while larger companies became additionally influenced by the pricing of services.

Primary Reason a Company Ends a Bank Relationship

\$40-\$500 Million	2009	2010
Availability of credit	19.0%	23.9%*
Customer service	25.6	26.5
Pricing of cash management services	5.4	8.7*
Availability of cash management services	9.5	8.6
Pricing of credit	6.4	13.3*

Over \$500 million	2009	2010
Availability of credit	20.7%	26.5%*
Customer service	20.1	26.1*
Pricing of cash management services	9.7	12.7*
Availability of cash management services	11.5	12.5
Pricing of credit	4.1	4.4

*Statistically significant

Additional measures of corporate buying behavior show 23.1% of middle market and 26.7% of large corporate companies report that a bank has won treasury management business principally because of low prices.

Competitive bidding situations have become much more prevalent by companies over \$500 million, with two thirds of respondents indicating they do competitive bidding when awarding new treasury business.

Although prices increases are rarely the sole reason for changing treasury management banks the sheer size of the FDIC and Transaction Account Guarantee Program (TAGP) changes on account analysis statements causes alarm. Many companies began to question all account analysis changes.

Phoenix-Hecht predicts that an unusually large number of corporations will be shifting some or all their treasury management business to a new provider over the next two to three years.

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