Managing Banking Relationships: *A Two Way Street*

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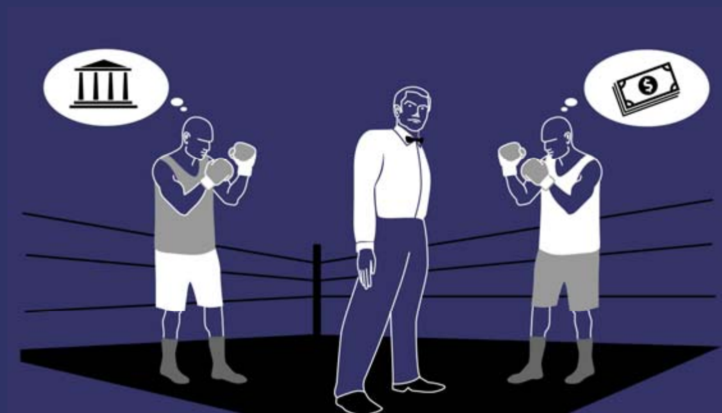
Presentation Outline

- Introductions
- Agendas & objectives for relationship
- Credit
- Technology & services
- Regulatory, security, and fraud
- Customer relationship management
- Final thoughts

Introductions



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Poll Question #1

- How many people in the audience are:
  a) Bankers?
  b) Commercial or corporate customers?

Agendas & Objectives for the Relationship

- Banker's view
  - Maximize return on relationship
  - Manage/Match credit exposures
  - Minimize risks
  - Obtain ancillary business
  - Annuity business based on partner versus vendor relationship
  - Create a sticky relationship
  - Maximize share of wallet
  - Cross sell multiple product lines
  - Harness technology where possible
  - Seek successful long-term partnerships

Agendas & Objectives for the Relationship

- Corporate view
  - Maximize credit availability
  - Minimize credit requirements
  - Minimize banking fees
  - Optimum technology
  - Low documentation, compliance requirements
  - High security/Low hassle
  - Customer service relationship management- what are the offerings?
  - Return on relationship

Credit Requirements

- Corporate credit requirements are usually a key component of the bank/customer relationship
- The customer's ability to separate its credit bank from the FI(s) providing other financial services increases with the size of the customer
- My question is:
  - Do FIs take advantage of the fact that the customer may be bound to the FI providing credit?

Credit Requirements

- Banker's view
  - Minimize cost of capital
  - Manage credit risk
  - RAROC analysis (risk adjusted return on capital)
  - Seek ancillary business opportunities
  - Ensure compliance and due diligence (Know Your Customer)
  - Leverage credit relationship
  - Regular review of relationship return
- Corporate view
  - Maximize credit availability
  - Competitive cost of credit
  - No up front fees
  - No covenants
  - Range of products/solutions

Technology & Services

- New technology is a key driver in the evolution of products and services in financial services.
- Some current examples of new technology-driven initiatives:
  - Image services, TECP, cheque payee match services
  - FX services
  - Chip enablement for debit and credit cards
- Many FIs are designing new products to encourage migration from manual service to electronic self-serve.
- Some banks are moving some services to a third party service model (i.e. outsourcing to third party processors). Examples:
  - Symcor- cheque processing, lockbox
  - Emergis- bill payment services
  - Intria- cash processing

Technology & Services- Poll Question #2

- Who should foot the cost for new technology?
  a) Customers who use the products
  b) Bank service providers
  c) Split the cost: 50/50

Technology & Services- Poll Question #3

- What is your preference when dealing with third party service providers?
  - a) Customer should deal only with FI, and FI communicates with third party service provider
  - b) Customers can communicate directly with third party service provider

Technology & Services

- Banker's view
  - Migrate clients to harness technology
  - Align pricing strategy with the cost to deliver services
  - Security and fraud management- utilize technology where possible, and educate clients on security policies and solutions
  - Integrate product delivery to common platform across all channels and products
- Corporate view
  - Reduce touch points
  - Reduce work load
  - Increase security
  - Increase speed of delivery
  - Costs – No net increase
  - Outsourcing - Ownership/Accountability

Regulatory, Security & Fraud

- Changing regulatory environment, often driven by changing security and fraud patterns
- Anti-money laundering regulations
  - Increased KYC requirements; for example:
    - More due diligence when opening new accounts
    - More documentation required to make changes to signing officers
- New fraud management products & services being offered; for example:
  - Cheque security features
  - Positive pay, payee name match
- Electronic banking issues- Authentication, Authorization
- Who takes the risk in incidents of fraud?

Regulatory, Security & Fraud

- Banker's view
  - Manage risks & liability
    - Know your customer
    - Compliance
    - Reputational risk
  - Fraud management
    - Offer and encourage fraud management tools
  - Regulatory issues to address:
    - Capital requirements
    - Know your customer
    - FinTRAC reporting
    - AML
    - Anti-terrorism financing
- Corporate view
  - Corporates responsible for internal controls
  - Regulatory does not keep pace with fraudsters or technology
  - FI's do not keep pace with fraudsters or technology

Security & Fraud- Poll Question #4

- Who should be responsible for fraud prevention?
  a) Banks
  b) Corporates
  c) Split responsibility

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Security & Fraud- Poll Question #5

- Who should be responsible to ensure compliance with new regulatory requirements?
  a) Banks
  b) Corporates
  c) Split responsibility

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Customer Relationship Management

- What is the value of the bank/corporate relationship?
  - For the customer: What is the cost to change banks?
  - For the FI: What is the cost to replace a customer?
- In an environment of increasing commoditization of banking products and services, how can a bank add value to the client's business?

Customer Relationship Management-Poll Question #5

- How do clients in the audience view their bank(s)?
  a) As a business partner?
  b) As a vendor?

Customer Relationship Management

- Banker's view
  - Goal- to be a partner to our clients, not a vendor
  - Ensure customer service delivery model is supported by the revenue model
  - Offer value-added services via a cost effective delivery model
  - Good CRM can identify opportunities to:
    - Offer new products
    - Increase product volumes
  - Provide access to product specialists
- Corporate view
  - Partner? Vendor?
  - Internal Corporate dynamics
  - Preferred customer service model may vary
  - Bank to communicate strengths and key services, highlight opportunities
  - Bank's education offerings- web-casts, seminars, conferences

Customer Relationship Management- Poll Question #6

- What is your preferred coverage model?
  a) Each customer is assigned a single, dedicated client service representative
  b) Customers call a 1-800 line to reach a team of people equipped to respond to their issues

Final Thoughts- Is there Middle Ground?

- Can we find “Middle Ground”?
  - The relationship must be flexible on both sides
- Keep communication channels open
  - Communicate needs on both sides
  - Formal, regular meetings to review financial results, problem areas, changes, etc.
  - Take advantage of informal relationship building opportunities
- Benchmark bank performance & fees against industry standards where possible and practical

Further comments are welcome!

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