Most banks claim to be “relationship” banks. But are they? Is yours? And why does it matter? When it’s time to add a bank to your roster or change your financial institution, it’s important to separate a bank that is consistent in creating and maintaining relationships from one that is a relationship bank in name only. A relationship approach to banking ensures that your company receives the fullest appreciation of the aspects of your business and your strategy that make your company unique. Only then can your bank provide a stable and consistent source of financial support and best practices to help fuel your success.
In the relationship business model, a Relationship Manager (RM) is dedicated to helping your company succeed. Over time, your RM develops a deep understanding of your unique business needs and your local environment, collaborates with you to develop and customize the solutions and services that will meet your goals, and provides ongoing consultation and financial planning insight. These RMs take the long view, remaining a critical go-to resource through economic and business cycles.

THE VALUE OF SOFT DATA
When people think about financial information, they usually think about numbers — inventory levels, balance sheets, revenue projections. This is hard data, the kind of information that you can enter into a spreadsheet or add to a formula. Depending upon its business model, a given bank’s opinion of your creditworthiness may be substantially dependent upon a set of ratios, calculations and trend lines, and may not fully credit the expertise, knowledge and opinion of the person closest to your relationship with the bank, your Relationship Manager.

A relationship bank also relies heavily on soft data, which is more difficult to quantify, such as your skills, honesty and how you react under pressure. The bank’s ability to use that soft information arises gradually and organically, from experience and wisdom accumulated over time and through the skills and perspectives of their RMs.

At the very beginning of the relationship, expect the RM to research your company and its industry or financial sector, according to Bremmer Kneib, Senior Vice President, Corporate Banking Group Manager, PNC Bank, Denver, Colorado. They should bring their own experience and that of their financial institution to the table.

Your Relationship Manager learns a little more about your business every time you engage in a conversation, deliver a set of financials, review your recent performance, or relay specific day-to-day and strategic challenges and opportunities.

“Generally speaking, when we walk into a business, we’ve got a pretty well-based hypothesis about the business, the risks and what factors might allow for success,” Kneib says. “Through a dialogue around that research and those hypotheses, we’ll confirm things, or we’ll learn about other areas that we need to focus on and assess risks, and bring them thoughtful ideas.”

CONSULTATION AND CURATION
A human touch is necessary to build a relationship based on flexibility, discretion, confidentiality and trust. Relationship banking is not just about everyday transactions.

In order to provide solutions, a relationship banker curates the bank’s financial capabilities to enhance your bottom line. Unlike the siloed nature of transactional banking, relationship bankers integrate solutions at the bank on behalf of the company. Effective RMs tap into all of the bank’s capabilities — capital raising, cash flow treasury management, risk mitigation and international support, as well as business succession planning and execution of strategic alternatives, such as an ESOP, IPO or M&A event.

This creates a mutually advantageous relationship. You can profit from an organized and comprehensive support system from a single strategic provider. The bank succeeds by cementing a long-term relationship through delivery of an organized and comprehensive set of financial products to a valued client.

Let’s look at the pillars of a well-structured banking relationship.

A relationship bank integrates a holistic understanding of your organization’s financial needs with a full suite of financial products and resources.
TAKING THE LONG VIEW

Your Relationship Manager should be available during all phases of an economic cycle. During a financial downturn, having a banker who knows and trusts you can reduce liquidity restraints.

After the 2008 bankruptcy of Lehman Brothers, “...banks offered more favorable lending terms to firms with which they had stronger relationships,” a trend that repeated itself during the European sovereign debt crisis that began the following year, according to the Bank for International Settlements.

AUTHENTICITY

That said, relationship banking is not about obtaining more advantageous credit terms and conditions; you can still expect industry-standard practices to govern all financing packages.

“...we find that while relationship lending is not associated with credit constraints during a credit boom, it alleviates such constraints during a downturn,” according to a study published in the Journal of Financial Economics.

HONESTY

To be effective, consistency and authenticity require open and honest communication by both you and your RM.

Honesty should inform every aspect of your RM’s interactions with you. They should not take unnecessary risks or trade long-term value for short-term gains. Rather, they should operate on the assumption that the long-term growth and stability of their bank depends upon the long-term growth and stability of your company and other companies like yours.

When offering financial products, your Relationship Manager should make sure that you clearly understand costs, benefits and risks. Any reports, briefings or discussions shared with you should be complete and accurate.

As a client, you should likewise provide your RM with honest assessments of your company’s business model, financial condition and future projections. Like an attorney or physician, your banker can only help you if they have all the information they need to truly understand your challenges and opportunities.

LEVERAGING LOCAL UNDERSTANDING AND PRESENCE

Your Relationship Manager should understand how business is conducted in your geographic region. Banks tend to be more flexible and make better decisions when they understand the local business environment.

For instance, by participating in local trade organizations and charitable causes, they grow and maintain a network of contacts, which helps them learn about local issues and better understand the overall business community outside of the bank’s own offices.

Your Relationship Manager should be available during all phases of an economic cycle. During a financial downturn, having a banker who knows and trusts you can reduce liquidity restraints.
CREATING CONSISTENT SUPPORT
One successful aspect of this model involves a team approach, according to Kneib. The Relationship Manager sits at the center of a team of specialists who serve the client from within their areas of responsibility, such as credit products or treasury management.

The team approach also helps to smooth over any transition issues that might arise should the RM retire or otherwise leave the team. “We de-risk the pain of that turnover quite a bit, both through that relationship delivery and bringing homegrown talent — culture carriers — up through the bank system,” says Kneib.

“For the most part, on the corporate banking side, these client relationships go twenty-plus years with the same Relationship Manager,” says Charles J. Pascarella Jr., PNC Bank’s Senior Vice President, Corporate Banking. “We’ve seen a lot of our companies through some very transformational deals, growing up with the company and going through the good times and the bad times.”

FIVE THINGS TO CONSIDER WHEN ADDING OR REPLACING YOUR BANK

- **How complex are your company’s finances?**
  A relationship approach to banking can leverage a detailed knowledge of your organization and business sector to provide new insights and suggestions for protection and growth. On the other hand, a transactional approach might offer a more convenient route for purchasing a single financial product that satisfies your immediate needs.

- **What kind of financial products does the bank offer?**
  Foreign currency exchange management won’t do you much good if you sell trucks to local construction companies. But a well-managed fleet financing loan program might help you win some large contracts.

- **What are the true costs of doing business with the bank?**
  The service fee or interest rate that you receive for them. For instance, if one bank is offering a lower interest rate, their credit proposal may well include more restrictive covenants that limit your flexibility until the loan is paid off.

- **How strong is the bank?**
  During a financial downturn, a bank’s ability to see you through a crisis is only as strong as its own ability to weather it. Studies of the Lehman Brothers and the South Korea crises noted that any advantage that relationship banking afforded to the client depended upon whether or not the bank itself remained on sound footing.4,7

- **Do the RM and the bank understand how you compete?**
  Don’t just discuss the numbers. Spend as much time, if not more, in strategic conversations with any prospective banking service providers. Get to know them and their bank’s philosophy, and give them a chance to know you and your company’s value proposition. You’ll figure out soon enough if there’s a fit between their approach and yours.

If a true relationship approach to banking is what your company is looking for, start first by asking if your current bank measures up. Relationships ebb and flow, but the healthy ones endure and benefit both parties involved. Your banking relationship can be one of the most beneficial aspects of your business model, but only if you expect it and hold your RM and yourself responsible for growing and nurturing it.


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