FINANCIAL TIMES

June 15, 2012 7:00 pm

Having one bank may no longer be enough

By Jonathan Moules

Sue Hewitson, Ancasta finance director, has been forced to get to grips with foreign exchange terminology

The days when business owners remained loyal to a single bank are over. The financial crisis put paid to that.

In its place, however, has risen another issue – the challenge of moving to multiple suppliers for funding or other financial services and managing those relationships.

Gary Szentesi, head of finance at Dickinson Legg, which manufactures cigarette-making machines, has the luxury of several banking relationships although most of these are in Italy, where the company's parent business, Garbuio, is based.

Szentesi prefers it this way. "Our Italian owners use a panel of banks so they have a group of people queueing up to bank with them," he says.

Dickinson Legg, based in Winchester, Hampshire, does not have problems accessing debt because it is not planning any significant capital investment at the moment, and even if it did, it has cash reserves to enable this. It also has a spotless record for payment, according to Szentesi. "In 40 years, we have never defaulted on any of our letters of credit," he says.

What Dickinson Legg does need is foreign exchange services. Its machinery, used to chop and process tobacco, is sold to countries across the world. Some of these countries, such as Syria, Sudan and Zimbabwe, tend to raise eyebrows at its UK banks, mainly because they are scared of the reaction of the US authorities that have sanctions against these nations. "We go to collect the money and the UK banks say we cannot have it," Szentesi says.

Having banking relationships in Italy, where lenders are willing to provide financial support for such countries, is therefore very useful in these instances, Szentesi notes.

Overall, Szentesi says he prefers to work with the half a dozen Italian banks the company has relationships with. "They like to say yes first. Head office may say no, but at a local level they seem to have more power [than banks in the UK]."

Henry Ejdelbaum, managing director of ASC Finance for Business, a brokerage specialising in raising finance for small and medium-sized businesses is an advocate for multiple banking relationships.

"There is actually no real disadvantage to having multiple banking relationships apart from a little additional administration," he says. "You can take your factoring from HSBC and your mortgage from Santander because it is all paid by standing order, and once it is set up it is simple."

Many business owners are still "blinded" by the concept of loyalty to a single institution, Ejdelbaum adds. "There used to be a greater reliance on one institution because you had strong relationships with

Ask the experts: juggling finance providers

Malcolm Durham, co-founder and chairman of FD Solutions, which provides companies with finance directors on a part-time basis

"You can have more than one bank so long as you are profitable. If you look a bit sick it is unlikely that another bank will take you on, although they often don't say so immediately.

"In order for it to work you need to ensure that each has sufficient security but not limitless [amounts]. The first debenture may well be limitless and needs to be restricted.

"You should ask your existing bank to quote anyway. If the other is cheaper, they will be less obstructive. You need to treat them equally in terms of information that you impart. Banks bank, so don't take their offers of insurance etc, without going to specialists."

Henry Ejdelbaum, managing director of ASC Finance for Business, a brokerage specialising in raising finance for small and medium-sized businesses

"Banking has become a commodity like electricity. There is no advantage in staying with one supplier if someone offers a better deal elsewhere.

"Having said that people should only use multiple banks if it helps them. There is no point in using another bank's factoring service just to have independence from your existing lender if you don't need the finance.

"You should never take another bank's offer just because it gives you a saving, but because it benefits your business. If you don't need the money, don't take it."

Lucy Lillicrap, senior consultant at Afex Markets, a third-party adviser on foreign exchange deals

"Always make sure you do your due diligence. If you are considering a new broker, check that the company is regulated, don't just take the company's word for it. There is a history of small brokers disappearing and causing all sorts of problems.

"There is no such thing as a free option. If someone is offering you something that seems attractive, there is probably something in the small print that will mean it is not so attractive."

the bank manager. That is gone."

Others see a place for the simplicity of dealing with one financial institution.

Lucy Lillicrap, senior consultant at Afex Markets, advises companies that want to compare different foreign exchange services, and says that sometimes one relationship is best.

"If a client could get what he wants from his bank it is better to stay there," she says. "You don't have any problem of security of funds and it is a much simpler process because the money just goes in and out of accounts."

She admits, however, that the banking crisis has made this a lot more difficult. Often the bank will not remove the whole facility, but will halve it, according to Lillicrap, forcing a business to either go elsewhere or find a way of hedging against the remaining currency risk.

"With the credit crisis, banks are just calling anything that is callable in terms of debt, which is forcing companies to go out and look at brokers where they would not have before," Lillicrap explains.

Luxury yacht manufacturer Ancasta Group relies on currency hedging because of the way it sells its boats, taking orders at the Southampton Boat Show in September, six months ahead of delivery.

The problem is not finding brokerages willing to offer their services in this area, but managing the risk of different providers and understanding the confusing variety of hedging products, according to Sue Hewitson, Ancasta's finance director.

"I am inundated almost daily with currency brokers who want to do me a better rate than the bank," she says. "It is a minefield."

A major problem with foreign exchange is understanding the different types of products available, Hewitson adds, admitting that it took her years to understand the different terminology.

Ultimately, the bank gives you the easiest method of holding currency, she says. "I can just go to my bank and book it." The problem is that the banks often do not offer the best deal.

Ancasta, based in the port town of Hamble, Hampshire, has moved from using one bank exclusively for its foreign exchange needs to multiple providers to extend its credit facilities.

One problem with working with other foreign exchange providers is that they will want a deposit because they don't have a previous relationship with you, Hewitson says, although she accepts their reasoning.

"Typically we will have four to five million euros booked on forward contracts. That is a risk for a third party to commit to that on the markets because we could default on it."

They will also all offer slightly different deals, which are complex in nature so difficult to compare.

Hewitson also uses Afex on an advisory basis to understand the details of each offer she is presented with. "It gives you ammunition," she says, noting that the best thing about having multiple foreign exchange relationships is that she can use the different deals offered to get a better price from her bank.