New Regulation Benefits the Top Banks with Larger Share

2015 Greenwich Leaders: U.S. Large Corporate Banking and Cash Management

Q4 2015

Bank relationship rationalization and the easing of crisis-era concerns about counterparty risk in the U.S. associated with key bank relationships could be setting the stage for increased concentration of corporate banking business in the hands of the market's biggest banks. Such consolidation would add to the already commanding market share and penetration levels of the world's largest banks who offer industry expertise, best-in-class coverage, sophisticated product capabilities, and strong international networks. "While we expect to see further gains among the top U.S. banks, it will be interesting to track the positive momentum the largest foreign banks are showing," says Greenwich Associates consultant Andrew Grant.

Large U.S. companies have long expressed a desire to consolidate their banking business with a smaller number of providers in order to lower costs and simplify operations. For the most part they have not followed through on these plans, at least not on a large scale. Over the last five years, however, banks have been so willing to lend to strongly rated U.S. companies that at times the supply of credit has outstripped what has been tepid demand. Concurrently, the combination of low interest rates and a yield-starved investor base has created historically favorable conditions for issuers in corporate bond markets. As a result, large U.S. companies are feeling less constrained by credit needs than at any time in the recent past.

Greenwich Share and Quality Leaders — 2015

U.S. Large Corporate Banking Market Penetration

Bank	Total Relationships	Statistical Rank
Bank of America Merrill Lynch	86%	1T
J.P. Morgan	85%	1T
Wells Fargo	75%	3
Citi	68%	4
Barclays	44%	5T
HSBC	43%	5T

U.S. Large Corporate Banking Quality

Bank
Bank of America Merrill Lynch
J.P. Morgan

U.S. Large Corporate Cash Management Market Penetration[1]

Bank	Total Relationships	Statistical Rank
Bank of America Merrill Lynch	68%	1
J.P. Morgan	64%	2
Wells Fargo	50%	3T
Citi	49%	3T
HSBC	31%	5

U.S. Large Corporate Cash Management Quality[1]

Bank
Bank of America Merrill Lynch
PNC Bank
Wells Fargo

U.S. Debt Capital Markets Market Penetration

Bank	Total Relationships	Statistical Rank
J.P. Morgan	72%	1
Bank of America Merrill Lynch	67%	2
Citi	45%	3
Wells Fargo	42%	4
Barclays	29%	5T
Goldman Sachs	28%	5T
Morgan Stanley	27%	5T

U.S. Debt Capital Markets Quality

Bank
J.P. Morgan

Note: Based on responses from 538 U.S. firms with $2 billion or more in sales for large corporate banking, 613 responses from firms with $2 billion or more in sales for large corporate cash management and 364 responses from firms with $2 billion or more in sales for debt capital markets. Share leaders are based on total relationships including ties. Quality leaders are cited in alphabetical order including ties.
Source: Greenwich Associates 2015 U.S. Large Corporate Banking Study [1]Greenwich Associates 2015 U.S. Large Corporate Cash Management Study

Tightened capital reserve requirements and other new regulations have eroded bank profit margins. These changes have triggered substantial shifts in business strategy, with large banks becoming more selective in when and to whom they allocate capital and other resources, and some prominent foreign providers like RBS exiting parts of the U.S. business.

"Across the full spectrum of corporate banking services, companies are receiving a clear message: Banks' biggest and most profitable clients will receive the highest levels of service, while smaller and less lucrative accounts receive less intensive coverage or even see their relationships dropped altogether," says Greenwich Associates consultant Don Raftery. Companies are now much more active in the bank selection process and are awarding their most important credit relationships with greater share, ensuring higher levels of service and a bank group that has the most up-to-date product offerings.

Large Corporate Banking

Greenwich Associates 2015 research shows signs that companies have started moving business away from providers further down their bank lists and clear indications of business consolidation at the top. In aggregate, the top 10 U.S. corporate banks have seen their recognition as an important bank increase in the last four years, while the recognition of importance for the next 11–20 banks has remained stable since 2012.

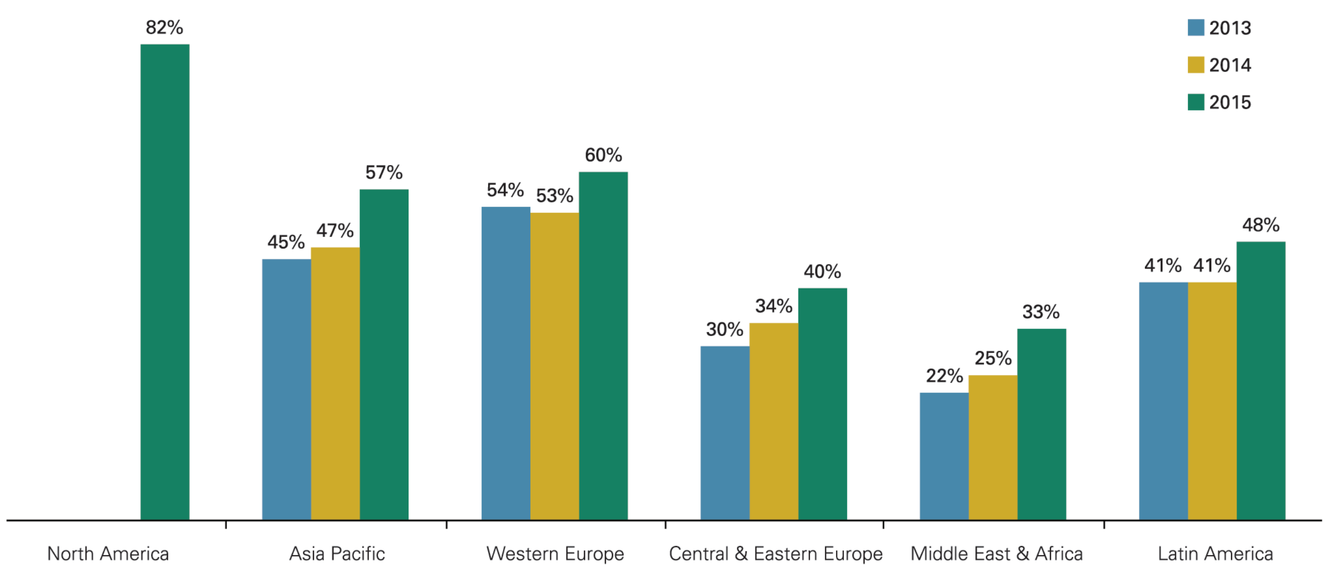
In addition, all of the leading banks expanded their market penetration levels over the past 12 months, meaning that they added new relationships with large U.S. companies. In 2015, Bank of America Merrill Lynch and J.P. Morgan are tied atop the market with penetration scores of 85–86%. Wells Fargo is third at 75%, followed by Citi at 68%. Rounding out the top tier is a two-way tie between HSBC and Barclays at 43–44%. These firms are the 2015 Greenwich Share Leaders in U.S. Large Corporate Banking. The market's top two banks—Bank of America Merrill Lynch and J.P. Morgan—also share the title of 2015 Greenwich Quality Leader in U.S. Large Corporate Banking.

The consolidation trend could be fueled further by another important development: the increasing internationalization of U.S. companies' businesses. The accompanying chart illustrates the steady build-up of corporate demand for cross-border banking services. The share of large U.S. companies (revenues above $2 billion) employing network banking services is on the rise in every major geographic region around the world. "In addition to providing opportunities for foreign banks to build relationships with large U.S. companies, increased demand for international banking services plays to the growing strengths of the largest U.S. providers who are increasingly capable of providing international coverage, and could further encourage the consolidation of business with the biggest banks," says Don Raftery.

Large Corporate Cash Management

The same dynamics are at play in the cash management industry, where companies' growing foreign businesses are creating new demand for international service. More than half of large U.S. companies require banks for cash management service in Western Europe, and an equal share employ at least one cash management provider for business in Asia. Forty-five percent of large companies use a cash management bank in Latin America, 36% use

Demand for International Services Continues to Increase in Corporate Banking



Note: Based on 554 responses from firms with over $2BB in sales in 2013, 506 in 2014 and 538 in 2015.
Source: Greenwich Associates 2015 U.S. Large Corporate Banking Study

a provider in Central and Eastern Europe, and more than a quarter do so in the Middle East and Africa.

"Companies' growing demand for international coverage will make it that much harder for smaller U.S. providers, who are already struggling to compete for domestic business against bigger rivals with significantly more resources to spend on sophisticated IT platforms," says Andrew Grant.

Although these trends will have a very real impact on the market in the long term, in the short term the cash management industry moves at a tectonic pace due to the infrequency with which large companies undertake costly and disruptive changes to their cash management infrastructures.

Reflecting those dynamics, the list of 2015 Greenwich Share Leaders in U.S. Large Corporate Cash Management is largely unchanged from last year. Bank of America Merrill Lynch now leads the market with a penetration score of 68%, followed by J.P. Morgan at 64%, Wells Fargo and Citi, which are tied at 49–50%, and HSBC at 31%. The large investments needed to compete in the U.S. market are reflected in the 2015 Greenwich U.S. Large Corporate Cash Management Quality Leaders, which include Bank of America Merrill Lynch, PNC Bank and Wells Fargo.

Consultants Don Raftery and Andrew Grant advise on banking and cash management services in North America.

Methodology

Between May and August 2015, Greenwich Associates conducted interviews at U.S.-based companies with $2 billion or more in annual revenue with: 538 chief financial officers, treasurers and assistant treasurers; 364 investment banking professionals in debt capital markets; 613 cash management specialists and other financial professionals in cash management. Participants were asked about market trends and their relationships with their banks.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

GREENWICH ASSOCIATES

6 High Ridge Park Stamford CT 06905 USA

Tel: +1 203.625.5038/+1 800.704.1027 Fax: +1 203.625.5126 email: ContactUs@greenwich.com www.greenwich.com