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Global Banks are More Selective with Large Corporates

2014 Greenwich Leaders: U.S. Corporate Banking and Transaction Services

Q4 2014

When it comes to large corporate banking and cash management in the United States, the new strategies of the biggest global banks can be defined by one word: selectivity.

Steep increases in capital costs driven by new reserve requirements are forcing banks to discriminate in their allocation of capital. Rather than trying to service a broad range of corporate clients, they are dividing clients into tiers and deploying increasingly expensive capital mainly to companies that show the most potential in terms of overall, long-term profitability.

One factor is working against banks' efforts to be more selective: it is a buyers' market for credit. Sluggish corporate loan demand, historically favorable conditions in corporate bond markets and increased competition from foreign banks have created an oversupply of credit in the U.S. large corporate market.

The glut of supply has enabled some companies to push in the opposite direction by increasing the number of banks with whom they do business. The strategy: To ensure adequate and reliable sources of credit and other essential bank services by spreading their business to wider number of relationships. To that end, corporate treasures are becoming more personally involved with how and to whom their companies allocate their business.

While some companies might have success with that approach, others might be hurting their chances of securing banks' highest levels of service as demand for corporate loans picks up.

In corporate lending, for example, most large banks are focusing their efforts and capital on companies in which they hold the lead relationship or at least the number-two spot. In their eyes, these are the only relationships that deliver a big enough "share of wallet" across all bank products and company business to ensure adequate levels of profitability.

This dynamic extends to cash management and other business lines as well. "The reality is, in today's marketplace you have to be important to a bank to qualify for full service," says Greenwich Associates consultant John Colon. "And importance is measured in size of wallet and risk adjusted returns."

Greenwich Share and Quality Leaders — 2014

GREENWICH ASSOCIATES Greenwich Share Leader 2014

GREENWICH ASSOCIATES Greenwich Quality Leader 2014

U.S. Large Corporate Banking Market Penetration

Bank	Total Relationships	Statistical Rank
Bank of America Merrill Lynch	84%	1T
J.P. Morgan	84%	1T
Wells Fargo	70%	3
Citi	63%	4
HSBC	42%	5T
RBS	42%	5T
Barclays	41%	5T

U.S. Large Corporate Banking Quality

Bank
Bank of America Merrill Lynch
J.P. Morgan

U.S. Debt Capital Markets Market Penetration

Bank	Total Relationships	Statistical Rank
J.P. Morgan	69%	1
Bank of America Merrill Lynch	65%	2
Citi	42%	3
Wells Fargo	35%	4
Barclays	29%	5

U.S. Debt Capital Markets Quality

Bank
J.P. Morgan

Note: Based on responses from 465 U.S. firms with $2 billion or more in sales for large corporate banking and 350 respondents 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 2014 U.S. Large Corporate Banking Study

Greenwich Share and Quality Leaders — 2014

Greenwich Associates 2014 Greenwich Share Leader

Greenwich Associates 2014 Greenwich Quality Leader

U.S. Large Corporate Cash Management Market Penetration

Bank	Total Relationships	Statistical Rank
Bank of America Merrill Lynch	67%	1T
J.P. Morgan	65%	1T
Wells Fargo	52%	3
Citi	46%	4
HSBC	29%	5

U.S. Large Corporate Cash Management Quality

Bank
Bank of America Merrill Lynch
J.P. Morgan
PNC Bank
US Bank
Wells Fargo

Note: Based on responses from 544 U.S. firms with $2 billion or more in sales. Share leaders are based on top 5 banks including ties. Quality leaders are cited in alphabetical order including ties. Source: 2014 U.S. Large Corporate Cash Management Study

Large Corporate Banking

Regardless of any shifts in strategy, Bank of America Merrill Lynch and J.P. Morgan continue to dominate the world of U.S. large corporate banking. Approximately 84% of large U.S. companies do business with one or both of these banks. Wells Fargo is a solid third, with a market penetration of 70%, followed by Citi at 63%. Rounding out the top tier are HSBC, RBS and Barclays, which are tied for the fifth spot. These firms are the 2014 Greenwich Share Leaders in U.S. Large Corporate Banking.

HSBC, RBS and Barclays have all significantly increased their presence as credit providers to large U.S. corporates over the past three to five years. In fact, this trend isn't limited to these leading foreign banks. Other banks such as Bank of Tokyo Mitsubishi, BNP Paribas and RBC have also added meaningful numbers of lending clients in the U.S. "These banks are benefitting from the growing demand among U.S. companies for international banking capabilities," says Greenwich Associates consultant Andrew Grant.

The 2014 Greenwich Quality Leaders in U.S. Large Corporate Banking are Bank of America Merrill Lynch and J.P. Morgan.

Cash Management

As in overall large corporate banking, J.P. Morgan and Bank of America Merrill Lynch are the clear leaders in U.S. Large Corporate Cash Management, with roughly two-thirds of U.S. companies using one or both banks as a provider.

Treasury Management Systems — Top 4

FXall
SAP
SUNGARD (AvantGard Treasury)
Wall Street Systems

Note: Leaders are cited in alphabetical order including ties.
Source: 2014 U.S. Large Corporate Cash Management Study

Again, Wells Fargo is third with a market penetration score of 52%, followed by Citi at 46% and HSBC at 29%. These banks are the 2014 Greenwich Share Leaders in U.S. Large Corporate Cash Management. Bank of America Merrill Lynch, J.P. Morgan, PNC Bank, Wells Fargo and US Bank share the title of 2014 Greenwich Quality Leaders in the category.

"What's interesting in this business today is that we now have five top-notch cash management providers with similar levels of quality at the top end of market," says Greenwich Associates consultant Don Raftery. "But it might not seem that way to corporate clients. Because banks are being so aggressive in tiering companies and allocating resources to their best clients, different companies might have much different perceptions about the quality of service delivered by the same bank."

Technology platforms have become such a critical element in large corporate cash and treasury management, and our research provides the quality ratings and market position of the leading providers of Treasury Management systems.

Debt Capital Markets

Building off their powerful franchises in corporate banking and lending, J.P. Morgan and Bank of America Merrill Lynch have built dominant franchises in debt capital markets. J.P. Morgan leads all competitors with market penetration of 69%, with Bank of America Merrill Lynch close behind at 65%. Citi is third at 42%, followed by Wells Fargo at 35% and Barclays at 29%. These banks are the 2014 Greenwich Share Leaders in U.S. Debt Capital Markets and J.P. Morgan is the 2014 Greenwich Quality Leader in U.S. Debt Capital Markets.

Debt Capital Markets have been a booming business for banks over the past several years as historically low interest rates fueled historic levels of issuance. Given the fact that, by the second half of 2014, companies had raised massive amounts of capital and rates had begun to rise, it's no surprise that expected demand for new corporate bond issues has taped off somewhat. That's not to say that the business will collapse next year. To the contrary, a robust 37% of large U.S. companies say they expect to issue corporate bonds next year as they continue to lock in low-rate, long-duration debt.

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

Methodology

Between April and June 2014, Greenwich Associates interviewed chief financial officers, treasurers, and assistant treasurers at 465 U.S.-based companies with $2 billion or more in annual revenue. During the same time period, Greenwich Associates conducted interviews with investment banking professionals in debt capital markets, at 350 U.S.-based firms with $2 billion or more in annual revenue and with cash management specialists and other financial professionals, at 544 U.S.-based firms with a sales size of $2 billion or more. 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.

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