



G T K B

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Do we need banks? Or is there actually hope for banks?

Is a world without banks really inconceivable? Is it a natural law that mankind needs banks and Isaac Newton just forgot to be aware of it? Or did many banks in the world, not necessarily ASEAN banks, screw up massively in any and every possible way and are now in danger to be remembered only in history classes?

There are many reasons why banks in the western world but eventually globally are in search of meaning, in existential fear without realising or wanting to realise it.

Let's for instance look at innovation, the single most important factor to remain relevant and stay in business. Former Federal Reserve Chief Paul Volcker said "I wish somebody would give me some shred of evidence linking financial innovation with a benefit to the economy" and went on to mention the ATM machine as the only financial invention in the past 25 years that benefited the consumer.

When was the last time you had a "wow" feeling about a product or service innovation from a bank? You probably have to think very hard (if not, please do let me know about this financial product!). And now think about the last time you were impressed about a product of a company unrelated to the financial industry? How about Apple's iPhone, the internet per se, new medicine or innovations from the car industry? The principal of the car in itself has not changed much in the past 125 years. I only mention the latter as one might be tempted to think modern banking is over 600 years old and nothing can be invented anymore.

But please, do not think about ABS (Asset Backed Securities), F/X, LIBOR or CDS (Credit Default Swaps) as being helpful to the economy. These are but a few of financial innovations or products which came from the banking industry; in itself they can be good products but without proper regulation or no regulations at all, some of these products, ABS & CDS, have caused the present financial crisis. LIBOR is a reference point for over US\$ 350,000 billion (No, I did not get this number wrong) and most of the "world class" banks are involved in manipulating it. F/X has a daily volume of US\$ 4.3 trillion but only about 1 percent of this value has an underlying business transaction. The rest is speculation and propriety trading, being a euphemism for speculation. Of course, bankers never stop arguing that they provide liquidity to the markets - but do we need 99% liquidity for 1% of underlying business? No wonder, F/X, too has been manipulated by our world class banks for decades. So has been gold and other precious metals, what comes next?

There are many financial innovations which did not come from banks at all and actually do serve society. Look at Yunus' Grameen Bank; Mr. Yunus was a professor before he invented Microfinance and became The Banker to the poor. Why couldn't a bank come up with this idea?

Considering that there are 7 billion people on this planet and a bit over 2 billion have a bank account but about 6 billion mobile phones are in operation, it should not be that difficult for bankers to come up with novel banking products, shouldn't it? Look at M-Pesa which started big in 2007 in Kenya and is growing international. It was Vodafone with a local partner who came up with this idea and last time I checked, Vodafone or Apple's Pay aren't banks, are they?

And this leads me to "Disintermediation" or "get rid of the middleman". Here are but a few financial products/services offered by non banks cutting into the income cake of banks.

The first example might not be too obvious but I am thinking of the Euro. Yes, Euroland has its problems but it will overcome them, think of it as a childhood disease. It is a fact that before the Euro was introduced banks in Euroland had over € 20 billion foreign exchange income from the 16 local currencies. Once the Euro was introduced this income vanished instantly and there was no need anymore for a middleman. Is the ASEAN next?

There are insurance companies, which, as institutional investors, have to find investing opportunities. That is quite difficult with the historic low interest rates. So instead of mandating banks, they invest money directly with the consumer in form of mortgage loans; cheaper than a comparable bank offer, which in turn makes the consumer happy. The insurance company also wins, as it receives a higher return than what a bank would offer, hence cut out the middleman!

A similar modus operandi can be seen from many industries. Almost all car manufacturers have their own bank, called captive bank, which offers car finance at much lower interest rates than banks are prepared to offer. Because these BMW's, Mercedes' and Audi's (I am German) swim in money, it is a supplement income for them as they, too receive higher interest income compared to depositing with banks. The dilemma here for banks is that they are banks; that means they can not do anything else, or have you ever seen a bank being also a car manufacturer?

Then there are new companies offering alternative financial products with the help of technology. Peer to Peer lending is a

prominent example. Somebody wants a loan, say € 10,000, puts his/her profile on the P2P's website and others are offering to chip in €100 or more until the amount has been reached. The money is paid out, the borrower makes 1 payment per month to the P2P company and the latter pays out the interest payments according to the share. The company gets a commission, the borrower gets the money cheaper and the lenders get more compared to a bank. Default rates are similar to the banking industry and this risk can be mitigated by investing in many borrowers and/or buying insurance cover; this is pure disintermediation.

For companies joining a trade exchange like BarterCard helps freeing working capital without borrowing money by creating a kind of artificial currency/point system. When thinking about company loans and disintermediation think also about bonds! Instead of asking for a loan from a bank the company asks for money directly from investors; this cuts out the bank, too. Of course, this is part of Investment Banking but there is no law that the origination, distribution and underwriting has to be offered by a bank!

There are of course many more examples already available or products that could be available. Why isn't there an Air Asia in Banking? Like Banking, the airline industry is also heavily regulated and protected. Yet Mr. Fernandes is hugely profitable while others have to fight for survival. His invention was a service invention.

Is it really technical impossible that Apple or Microsoft opens a worldwide clearing bank, which allows every owner of an iPhone or Windows to do all cash management for next to nothing? Apple Pay or Transferwise appear to have a good chance. Every company, which has a huge distribution channel (7 Eleven, mobile phone operators, supermarkets, etc.) could not only distribute financial products but also manufacture them!

I know, I know. I am dreaming of products not yet available in the market. Those already available are by no means a serious threat for banks as their market share is pathetic. As true as it is, it reminds me of the utility business in Germany. Years back there were 3 gigantic power utility companies in Germany, financially and politically immensely powerful. Some 20 years ago, solar energy became known to some freaks; quality improvement with the years, environment protection and global climate change helped it to be more popular. Yet the electricity generated was still so much more expensive compared to atomic power of the 3 giants hence the solar industry remained a dwarf.

The government however, realising that alternative energy is the future began subsidising the electricity generated by regenerative technology. Although Germany is not known for sunny weather, no other country in the world has more solar panels installed than Germany. Then came Fukushima, the government has phased out all atomic power reactors and the 3 gigantic utility companies lost tens of billions in market capitalisation. They are now a shadow of their former selves and alternative lending, sorry, alternative energy suddenly is mainstream.

And as long as banks do not change and continuously re-invent themselves, this fate can strike very quickly. One or two more global financial crises

It might strike you that I am actually a banking consultant. I offer bank simulation training and consult on ways to become a pro-active, inventive bank with products the client needs and clients the bank needs. What does this mean?

Indeed, it is quite difficult to really invent new financial products so it might be better to concentrate on service innovation and make existing products better. For example, many banks in ASEAN do have a strategy to be or become client centric. It is not enough to follow your client and have the same logo in all countries a bank operates. Being client centric means your clients must perceive you in the region as one bank operating in 5 countries instead of 5 banks in 5 countries having the same name and logo. To achieve this, you need to start with people; future managers must be regionally attracted and continuously regionally posted. Client specialist need to be seconded to regional country desks, i.e. a Malaysian bank operating in Thailand needs to establish a Malaysian desk with Malaysian RM's in Thailand and vice versa. That is not rocket science, but highly effective and instantly adding to the bottom line; how many banks in the region have this approach?

Client centric also means you need to know your clients and your client's client. Please do not think of Segmentation as being easy, many banks are just not there yet. 20 years ago you only had 3 Mercedes models, C-Class, E-Class and S-Class, that was it. Now you have the whole alphabet of models and even more. And this is true for so many other industries. People want choice, the more the better. However, in banking time stood still; within consumer banking a typical bank has 3 to 4 clusters (mass-market, affluent consumers, privileged consumers and private banking clients), similar in wholesale banking.

Client centric business however means you would have 30, 40 or 100 clusters instead of 3. For instance, ASEAN wants to be a hub for medical tourists, which local bank has a "Health Desk", where bankers are former medical professionals? Malaysia & Singapore like Formula 1, which bank has a "Sports Desk" where former well known sports professionals are employees of the bank? Each bank has bank employees, which do earn quite well, which bank has a dedicated employee desk offering tailored product relevant to the bank's employees? Malaysia has many migrant workers, which local bank offers tailored products to them?

Which bank has already moved from doing boring cross selling - being re-active - towards offering clients a solution - being pro-active - which includes a package of products but means that you need to know your client, its industry and its drivers, hence client centric?

None of these examples are rocket science, they even sound boring and basic but this is exactly what is lacking to stay relevant for the long term. The revenue for banks globally is massively shrinking and only the banks which can provide its chosen clients a "wow" feeling will stay relevant; so why not starting to pick low hanging fruits first and develop further to become the Air Asia or iPhone of banks?

sapere aude ... dare to think!