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# BANKS HONE PLAN OF ATTACK

## FOR THE GLOBAL THEATRE

**SIX GLOBAL BANK CHIEFS – INCLUDING THE NATIONAL AUSTRALIA BANK'S FRANK CICUTTO – OUTLINED THEIR GLOBAL STRATEGIES AT A RECENT MAJOR BANKING FORUM IN LONDON.**

Global banks have experienced some major challenges over the past 12 months. Given the changes sweeping the banking industry combined with increasing turmoil in the world financial markets, banks globally can expect even more difficult and complicated issues to emerge.

The prevailing conditions have challenged not only the ability of banks to keep their operations stable and profitable, but also to keep credit and operational risks in check in an increasingly volatile and uncertain environment. New types of operational risk concerns have emerged such as the ability of systems to cope with adverse events such as a terrorist attack. Major corporate failures, governance problems and a crisis of investor confidence have also had a serious impact.

These issues have also affected how banks will grow their businesses in their home and international markets. Generally, global banks face a range of issues in terms of their growth strategies. These include how to achieve the right mix of global and local business, the limitations of using global brands; and how to adjust service and distribution infrastructure according to a region's economic and market conditions.

Banks also must determine how to successfully transfer products and platforms from one market to another; and how to position in emerging markets like China.

### Facing up to the challenges

Against this backdrop, the British Bankers Association held its first Global Banking Industry Forum in London on 3 December. This was arranged with the assistance of the author, Bryan O'Connell of B@nkfin Consulting.

Six leaders from leading global banks, including National Australia Bank head and AIBF president Frank Cicutto, addressed the forum on the theme of 'complexities and challenges of globalisation for banks – the road ahead'.

Other speakers included Standard Chartered Bank chief executive Mervyn Davies, BNP Paribas UK chief executive Pascal Boris, Commerzbank chairman Klaus Peter Muller, Citigroup UK managing director Michael Kirkwood and Goldman Sachs chief executive Peter Weinberg.

In opening the forum, BBA chief executive Ian Mullen noted that it was probably more than 15 years ago that such a distinguished group of CEOs spoke at the same podium.

### Problems and trends in global banking

To illustrate the very difficult environment that banks are operating in, Standard Chartered Bank's Mervyn Davies emphasised the banking industry was not only going through a period of very big changes including the effect of technology, but was also facing a lot of uncertainty.

'The business world has been through a period of corporate greed and a tremor has been felt in capitalism,' he said. 'The speed at which corporate collapses have taken place is a big issue and concern, as well as the deterioration of some household names.'

As a result, Davies said, banks should 'expect the unexpected' in terms of possible credit losses. He also stressed volatility in financial markets had become a major problem.

At a personnel level, Davies said banks required staff with a new set of skills. A war for talent was taking place as a result.

Today's banker needed to be an 'economist, a communicator, a talent manager and a technologist', he said. A fairly tough order, but it does show just how important it is for bankers to keep adapting to the environment and learning new skills.

In terms of global trends, Davies focused on globalisation of operations and brands, the increasingly complex regulatory challenges, severe volatility in financial markets and the increasing pressure for corporations to be socially responsible.

Some other interesting perspectives were provided by BNP Paribas, Europe's biggest and most profitable bank in the Eurozone (European union market) with a presence in 87 countries.

BNP's Boris Pascal listed the following as some of the complexities facing global banking:

- meeting demands of clients that are becoming increasingly global;
- achieving excellence in both client coverage and product mix;
- managing both global businesses and geographies;
- achieving economies of scale;
- creating effective communication in large organisations;
- dealing with regulatory constraints; and
- having the most effective IT systems.

In terms of retail banking, Pascal observed that no bank has built a worldwide retail banking brand. He said this was due to the 'lack of synergy opportunities and limited opportunities to achieve economies of scale in both systems and products'.

He said other constraints were the lack of uniform tax and consumer protection legislation, as well as the reality that consumers generally trust established domestic banks.

BNP Paribas' strategy in terms of dealing with these issues is to recognise that being strong in its home market of France is not good enough. 'You must grow in your extended home market – for BNP this is the European Union market – and then grow internationally.'

## Opportunities for growth

According to Pascal, as markets become more international they will create further opportunities for consolidation. With monetary union triggering growth, this will also mean that European banks can build stronger positions in the world's largest savings markets and also leverage those positions to grow in the US.

Pascal's also observed the biggest competitive threat faced by European banks was from their US counterparts. 'The biggest threat is from US banks who have relevant expertise and where they use their dominant home market position to subsidise international growth,' he said.

## NAB – we're here to stay

There has been much speculation about the NAB's UK ambitions. In response, the bank last year confirmed it had held discussions with Abbey National but that these talks had ceased.

The NAB's Frank Cicutto used the forum to stress from the outset that the bank was there to stay in the UK.

This in many ways should not surprise the market given that almost a third of NAB's group profit comes from Europe and that over the last 15 years it has substantially invested in retail banking through its four UK retail businesses: the Clydesdale, Yorkshire, National Irish and Northern banks.


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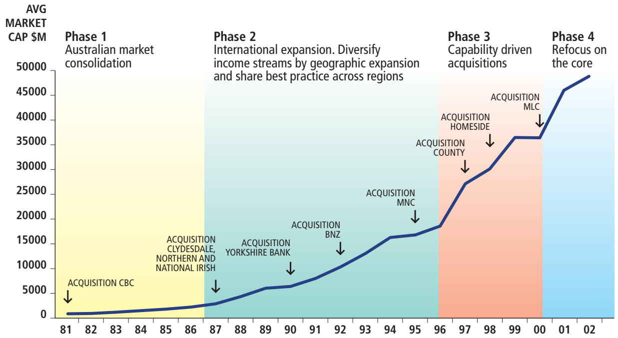
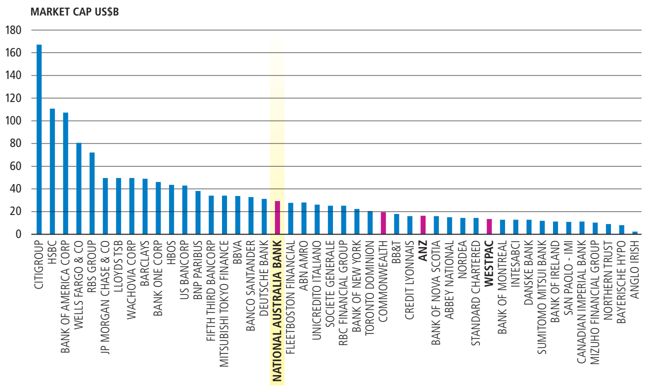
Given the NAB is not as well known in the UK as its home market, Mr Cicutto's address was very positive in terms of raising the bank's profile and what has been its recent history – 'The National Story' as he described it which is best illustrated by Chart 1.

**Chart 1:**
**The National Story**



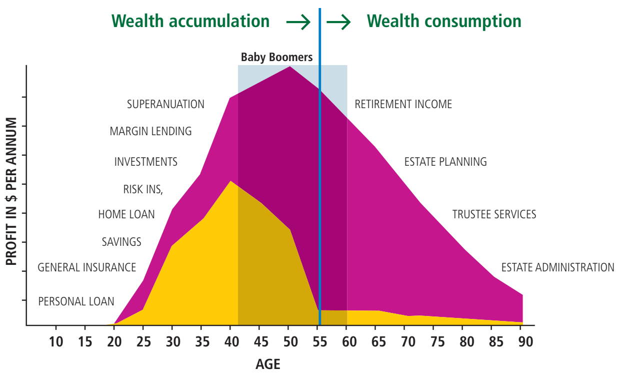

Many of the participants to the forum were surprised that the NAB ranks as the 19th biggest bank in the world in terms of market capitalisation, just behind Deutsche Bank and ahead of Dutch giant ABN Amro (see Chart 2).

**Chart 2:**
**National's place among world banks**




In terms of its successful UK strategy, Mr Cicutto said the bank had sought to capitalise on the strength of the four regional brands, while sharing the benefits of combined group activities in terms of best practice and common operating platforms. He also emphasised the bank's superior customer relationship management techniques and in particular, its distinctive capability in the SME and wealth management segments of the market (see Chart 3).

**Chart 3:**
**Wealth management opportunity**
**Profit signature for typical premium customer**
**By age 45 over 50% of profit comes from non bank products**



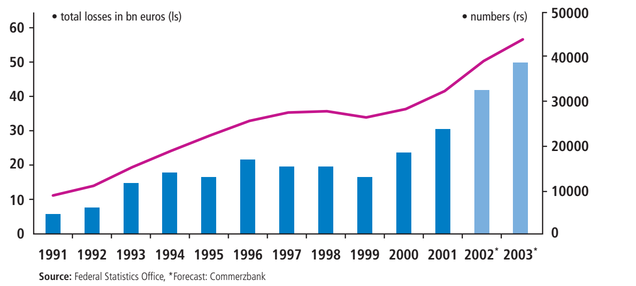

## German powerhouse loses steam

Once the banking powerhouse of Europe if not the world, Germany's banking industry has been seriously weakened by declining asset quality and declining profitability. In a July 2002 report, Deutsche Bank said the problems had resulted in selective downgrades, reflecting the banks' problems in achieving cost efficiencies, growing competitive pressures and the erosion of traditional customer relationships.

Commerzbank's Klaus Peter Muller agreed German banks had suffered from difficult economic conditions, increasing company insolvencies and the general collapse in share price values. (see Chart 4).

**Chart 4:**
**Company insolvencies and insolvency losses:**
**Increase reflects economic slowdown**

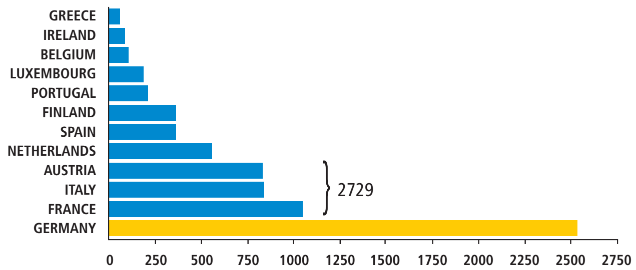
Number of companies: 2.9mn;
Insolvencies of companies with less than 10 employees in 2001: 18300




In addition, he said, Germany suffered from a number of structural problems in its banking system, including the highest number of credit providers in Europe (see Chart 5).

**Chart 5:**
**Germany: Highest number of credit institutions in the euro areas as of end 2001**

Germany nearly has as many independent credit institutions as France, Italy and Austria together.




Despite all the bad publicity, Mr Muller stressed the German situation was not as desperate as portrayed. 'We are not the Jurassic Park of banking,' he said, but admitted much needed to be done to address low profitability and high costs.

For Commerzbank, this means taking a path that Australian banks are familiar with – reducing staff numbers and other operating costs, increasing distribution power, focusing on core target customers and groups and honing strategy.

In future, according to Mr Muller, Commerzbank will focus on increasing its asset management business, strengthening its position and strategy in corporate and investment banking and also aiming to be retail banking leader. He said some of this would be achieved through optimising sales productivity, which entails lifting its number of retail customers per advisor to above the current industry average. In addition, he said that there would be no more closures of branches – a familiar story being echoed in Australia by many banks now.

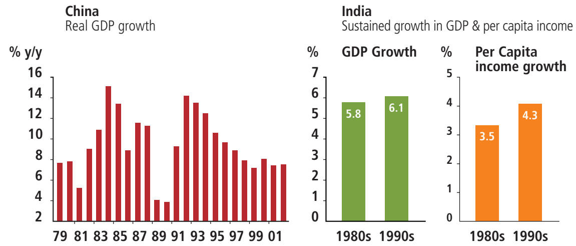
Given the changes sweeping the banking industry combined with increasing turmoil in the world financial markets, banks globally can expect even more difficult and complicated issues to emerge.

## Cracking the Asian market

Asia presents global banks with some major opportunities, but also big risks. The region has been through some major economic upheavals but is again emerging as a major focus for a number of banks.

Mervyn Davies said that the region has presented huge economic challenges. However, given that Standard Chartered has over 150 years' banking experience in the region – its first branches were in Calcutta and Shanghai – the bank was well placed to capitalise on opportunities in both India and China (see Chart 6).

**Chart 6:**
**Economic Powerhouses**




- Economic growth averaged 8% for 10 years
- Largest in-bound country for FDI
- India GDP growth at over 6% through the 1990s
- India per capita income growing at 4%

Davies described the pace of development in Asia as 'frightening', especially in terms of competition to provide infrastructure services such as IT and call centres.

'Although Asia was written off after the currency crisis, what is now emerging is that many Asian banks are better at technology than some of their western counterparts,' he said.

Some of the other key developments in the Asian region include the large pool of graduate talent and skills available, the growing number of affluent consumers and the growing use of mobile devices in China and India.

'China represents the world's biggest market for mobile phones and is becoming a world class consumer society,' Davies said.

As a result, Davies said, Standard Chartered was forced to change its branch design to cater for so-called 'cappuccino banking' driven by middle-class customers who are serviced through financial centres selling wealth management services and otherwise do routine transactions through telephones and ATMs.

Citigroup UK's Michael Kirkwood was similarly upbeat about prospects in Asia, a huge market of three billion people, of which 30 per cent are under 15. He said there was almost a gold rush mentality in terms of customers looking there for opportunities, especially in China.

For Citigroup, this has meant that demand for financial services has grown faster there than the US. But it is also a high risk market, Mr Kirkwood said. China, for instance, faces pressure on its local currency and poor corporate governance is always an issue. ◘