Retail Banking: A Business in Deep Transformation

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New trends are constantly appearing in the market; some of them can be good for banks, while others may not be so good. In this new emerging context, there are many dynamic changes to look at and be ready to face, and a strategic plan is fundamental to getting ahead. It is my belief that in a broad sense retail banks have some important assets they need to protect and on which they need to build their particular version of the future. In their strategic management process they need to make a selection, according to different criteria such as consistency, effectiveness, personal connection, and convenience. Given that in every strategy, the ultimate objective is to do what the market needs. The future opportunities for retail banks lie in the needs of their customers. Sometimes banks have seemed schizophrenic. They have not always operated in the market with a clear strategy that is a synthesis of their internal and external vision, while consistency and order are both a prerequisite for good functioning. The danger is that certain strategies in some ways lag behind the present, leaving the market without adequate leadership.

A number of stages can be discerned in the evolution of retail banking with regard to the relationship between the banks and their consumer-customers. Most of them lasted about a decade, and they started some years before the 1960s to the present. The early stage, up to the early 1960s, can be characterized as a production stage. At this time, banks had a predominantly inward focus; the emphasis was on producing and selling. From around the early 1960s to the early 1970s, the emphasis shifted toward product quality and the effects of competition. There was increasing recognition among the banks of the need to identify customers and to advertise. At the same time, the potential of marketing was increasingly being recognized. The concept of selling and developing a sales culture became more strongly emphasized; promotion was given a higher strategic priority. During the 1980s, the market-oriented stage intensified with the growing competitive threat of the building societies and other financial services firms from both the financial and non-financial sectors. Marketing grew in strategic importance at all levels within the organization. In some European banking systems (especially highly developed and deregulated systems like the UK), retail banks began to approach the final stage, called the 'market control era.' From a strategic point of view, this 'ultimate state' is when marketing concerns drive the whole organization; marketing considerations dominate all other strategic considerations. In this world, banks increasingly attempt to be proactive in meeting customer needs; customer service and quality are dominant strategic concerns. This shift in bank focus can be characterized as the movement from a bank-oriented financial system (where the traditional retail banks dominate as suppliers) to a strongly market-oriented system (where all markets are deregulated and highly contestable so that new competitors can easily enter and compete, eroding any excess profit). In this situation, intensifying and new forms of competition become the order of the day. At the same time, the overall performance of banks becomes increasingly subject to external market tests of efficiency at all levels; banks increasingly need to adapt to a more shareholder value-oriented culture. As a result, banks have to be more efficient (reducing their cost/income ratios as one key dimension of this productive efficiency trend) and more risk and return efficient (ensuring that their internal capital resources are allocated in a way that achieves the maximum return for each quantum of underlying risk). As a result, banks started competing through a policy of cutting costs and striving to be more efficient.

Since then, retail banking has developed in different ways and at varying speeds in different European and non-European banking systems with a declared common strategic theme emphasizing the evolution of a more market-oriented system and strategy. But the true challenge has been the implementation of this approach in an effective manner. This evolutionary stage is interesting in that it provides another important lesson from the past retail banking experience, and this is that the execution of a real market-oriented strategy was, and still is a weakness in retail banking. There are many reasons to explain the situation; we just need to consider that over the past two decades the banking industry has been undergoing profound regulatory and structural changes that are making conventional definitions of retail banks obsolete. These changes have particularly affected the business environment, the internal organization of bank holding companies, and the design of bank services and their delivery. Banks have organized their retail activities along three principal dimensions: the customers served; the products and services offered; and the delivery channels that link customers to products and services.

It is time to wake up. Retail banking is becoming a battleground where competition is getting more and more multifaceted. As it remains of utmost importance and utility to individual customers and to businesses, I think that the industry should find its own distinctive way of approaching the market, which seems to confine retail banks to the role of mere executors of low value added services and providers of credit. Retail banks should do more than that. Every retail bank has to look inside itself first and try to find its own future. This means that there is no one-size-fits-all

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solution, as we have being seeing around in the market so far. Each bank needs to look for greater uniqueness following its own recipe.

In this technology-driven era, customer mobility has increased consistently. Mobility has been an interesting venture for customers. While they are increasingly trying other banking experiences, they still doubt that other banks, and other providers, will be that much different from their existing bank. To this situation, banks have come slowly with the result that they have become less central to their customers' everyday lives, while other businesses are eyeing banking activity with major interest, sizing up any potential gaps in the market for themselves.

The new challenge for retail banks is going to be how to educate customers to assess the bank value offering, and to deliver real wealth-generating services to them. I think that only in doing so can banks gain an advantage and put themselves in a position to build lasting customer relationships. This means recognizing that tailoring services to meet customers' financial needs requires not only incorporating cultural, social, lifestyle, and life events into their value proposition, but also recognizing that more sales do not always lead to better service, but better service almost always leads to more sales. In other words, we have to remind that the bank product is a service and the seeds of the future for retail banking lie in this fact. In my book I have synthesized research and conceptual material from many talented academics and practitioners from diverse disciplines such as management, marketing, human resources, organization, and operations. As I think that a transdisciplinary approach is needed. And this is because both the future vision and strategy need to have a holistic approach.[2]

People, processes, and technology are drivers of paramount importance for banks, and the way they are combined affect a bank's strategy in its chosen markets and running costs. Future success will depend increasingly on the priority system and the proportions in which people, processes, and technology, as well as other factors, will take on their role within banking strategies. It is my belief that banks will still play an important role in economies around the world, and I am convinced that retail banks need to regain their popularity. This can be done if they set out their capabilities to help customers meet their life events and opportunities, rather than just supplying the many components for them to build solutions. I am not thinking that a retail bank should necessarily be customer driven, but that it should look at its customers more carefully than before and act accordingly and consistently with its market position and proposition.

It should be possible to take advantage of the many changes that are taking place in the market, even as competition is heating up. Change and innovation need not be disruptive, and retail banks need to take advantage of both, focusing their organization on a new vision centered on what banks are good at and were born for. There is another important point to be double outlined in respect to retail banking, and that is that banks are doing business in services. This feature requires banks to build repeat business, increasing customer experience and developing true customer loyalty. As a result, retail banking success will come from recreating value with the customer by enhancing support.

Many lessons can be learned from the past, but we want to remind the reader of just three of them. The most damaging competitor to any bank can be itself when it starts to grow and defocus over time. Under these circumstances, a bank becomes fragile and less agile in the face of changes. This kind of lesson is useful both to bankers and regulators when they encourage banks to become bigger as they face and develop competition. The mergers and acquisitions solution may in the long run reveal weaknesses under certain conditions, and this highlights the need to look for the appropriate dimensions for each entity.

The second lesson is that banking is not in search of relevance in the economy, as banks already play an important role in it (such as granting payments, lending, and supplying other financial services), but they need to regain their centrality in their customers' lives.

A third lesson looks at the implementation of strategies within banks. This is becoming more and more relevant as customers' expectations are changing and increasing in number and quality. This is not because of banks themselves but because of the appearance of companies such as Amazon and others, which are disrupting many industries around the world.

Given the current dynamics, a fundamental and strategic repositioning is needed. The crisis and related developments – especially stricter regulation – have shown that retail bank management is not a one-size-fits-all business model. Retail banking is a business with a global service proposition and regional models for delivery. But the essence of this approach is the notion that in place of traditional savings and loans, customers should be provided with integrated instruments and integrated pricing, supported by integrated information. And probably retail banking is going to be a market of many niches, where customers may jump from one to another. The challenge is to keep the entire 'customer game' inside the retail bank, making it clear how a bank works for and better serves its customers. I do not think bank strategy should be driven by the sales process, unless we understand better what is 'core banking' to us, as this is going to have a huge impact on the sales process too. But I consider it useful also to have a functional approach, by which I mean making customers competent to use banks, not to let the customers know what banks know.

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[2] Omarini A., 2015, Retail banking. Business transformation and competitive strategies for the future, Palgrave Macmillan, London.