

REGULATION TO SHAPE THE WAY OF THE FUTURE

As the effects of the global financial crisis continue to be felt, leading retail financial services executives agree that any future regulation will change the face of banking dramatically. By **Andre Khoury**



The Australian financial services system and its regulators have been widely credited with 'softening the blow' of the economic crisis on Australia.

Despite this, a raft of regulatory changes being proposed and considered in markets that have felt the full force of the crisis is sure to have an impact on Australia's regulatory processes and the way banks do business.

Speaking at a recent retail financial services discussion, hosted by AB+F and Experian in Melbourne, Survat Saigal, head of strategy, marketing and customer experience at Citibank Australia, said financial services companies must be prepared for the impact of global regulatory reform on Australia.

He said regulation was only "one piece of effectiveness" to help prevent another crisis.

"The other is actual supervision, actual enforcement of those regulations," he said.

"In large parts, where the impact of the crisis has been more severe is where regulations have not been enforced effectively

and I think in Australia our regulators have done a stellar job in actually working with the financial institutions in terms of making sure that adequate standards of prudence have been maintained.

"I think the key will be – and we are seeing this in the US – what's really changed dramatically is the way financial institutions are actually interacting with the regulators, not that the laws have changed.

"That's the big impact."

Ian Corfield, chief executive of retail at BankWest, said the industry globally "is going to have to pay the piper".

"There is going to be a tide of regulation in the US and the UK that I suspect we don't quite yet know the measure of," he said.

"That's bound to have an influence on regulators in Australia, albeit that they have done a pretty good job.

"My hope is that because Australia seems to be coming out of the crisis in very good shape that that means they will resist the

extreme forms of regulation that I suspect we will probably see in the US and the UK."

Gerd Schenkel, general manager of UBank, said any regulatory changes presented an opportunity to financial services organisations.

"The industry has a responsibility to shape any changes and turn that from simply adopting whatever might happen in the UK or the US into an opportunity to review [their organisations] for improvement in general and also to review for improvement for customers."

Branding and perception

The global financial crisis has seen the Australian banks perform reasonably well when compared to their international peers.

However there seems to be outrage within the general public that banks are still turning a profit when most people and businesses are doing it tough.

Stephen Porges, chief executive of Aussie, said this negative perception had to be countered.

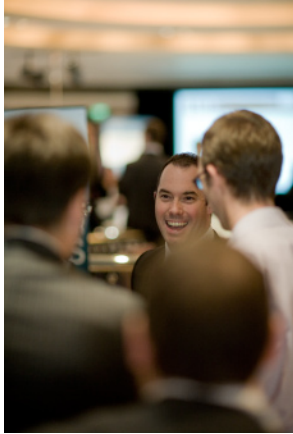
"Sadly I think banks making no profit would be accepted by the community, but it would be such a disaster for the country," he said. "So at some stage someone – maybe the Australian Bankers' Association – needs to take a stance and start explaining the absolute need [for a strong financial services sector]."

Saigal said the media had a role to play in informing the general public about the importance of a strong banking sector.

"I think the key trade-off is profitability versus the value to society and the value to society is extremely immense and we just can't leave it at that, I think there's merit in actually discussing that in some detail."

Schenkel said that the message had to be delivered that the future income of various people in society was dependent on a profitable banking sector.

"The other perspective is that the major banks are at least publicly listed companies and



profits derived by the major banks obviously are derived for the benefits of shareholders which tend to be Australian retirees or people saving for their retirement,” he said.

“Therefore [the profits] are accessible to a very broad section of society and therefore again profits generated by the system have an important role to play in terms of securing the retirement of the population.”

One area of major criticism levelled at banks is the amount of money they generate via fees.

Last year banks collected more than \$11 billion in fees from customers.

Corfield said as part of the debate about fees “we need to talk more about the margins that the industry is actually operating at.”

“From a retail banking perspective... to operate at a margin of around 1 per cent to 1.5 per cent, this is not fat cat behaviour,” he said.

However, he acknowledged the poor behaviour of some banks in the past and that the industry had failed to educate people about fees and charges.

“I think as an industry we’ve got to put our hand up and accept that, whether that’s people chasing three per cent margins at the far end of racy corporate deals... or whether it is rating up fees in ways that are not transparent to the customer, I think we have to take and accept some of the criticism from the media and from customers, whilst at the same time trying to bring people back to understand the actual margins that this industry operates on.”

What certainly hasn’t helped banks’ attempt to counter the negative perception held by the general public has been the criticism it has received by the Federal Government recently.

Porges said the government could help banks by easing off the criticism.

“I think it’s fair to say that the government spends a lot of time saying what the community wants to hear and it’s very easy to bash whoever is the flavour of the day,” he said.

“The government is equally fully informed of most significant decisions that are being made [by the banking sector], so at some stage they probably need to start saying ‘we

are benefited in Australia by a strong and robust financial services sector’, and if they make that point it probably starts helping the community understand a little bit more.”

Customers and shareholders

Balancing the needs of customers as well as the needs of shareholders has always been a challenge, never more so than in today’s conditions.

Saigal said the interest of the shareholder and the customer must be aligned.

“They can’t be different,” he said. “And I think one of the changes certainly over the last 24 months has been an increased focus in the financial services industry and most industries around sustainable earnings and not just a half yearly or the quarterly focus on earnings.”

“So the implication of that is that there is an increasingly focus – like it or not – of aligning the two interests because the shareholder increasingly is not saying ‘did you have a great quarter, did you have a great half’ but ‘how stable are those earnings, are you going to be able to sustain them over the next two or three years’.

“There was a lot of focus on quarterly earnings and there was little focus on the quality of those quarterly earnings.”

“That’s certainly changed a lot. The way banks are looking to do business is less focused on those quarterly earnings and more focus on sustainability and the quality of those earnings, and those have to be delivered via a focus on the customer.”

Schenkel said during the financial crisis the industry had seen an increase in the interests of customers for cash.

“That clearly has led to a dramatic rise in demand of deposit products,” he said.

“In addition to that obviously certain segments have started becoming much more engaged in their planning and the management of their own finances.”

However, Corfield said he had not seen a dramatic change in consumer behaviour.

“When you get down to the front line and into the branches what’s been amazing I think – and I think it’s probably unique to Australia – is how little shift there has been in consumer behaviour,” he said.

“I must admit at some points, even at the highs of the crisis, I’ve stood in some of our branches having to remind myself that there was a crisis going on because people were still coming in.

“Yes, maybe they were depositing a little bit more cash, but they were still taking out mortgages, credit cards, and personal loans. They were still looking for financial advice.

“I must admit I did not see through this a significant shift in customer behaviour.

“However I think that would be different if in the back end of the year we ended up with eight or nine per cent unemployment.”

Online banking and innovation

One constant challenge for the financial services industry is to maintain the safety and security of their online portals at a time of increased fraud perpetrated by criminals who are using advanced and sophisticated techniques in attempts to gain access to customers’ money.

Schenkel said customer education was the key in defeating the fraudsters.

“In particular around what information is being shared, where and how,” he said.

“And it doesn’t just extend to the bank websites but also to other websites like social websites.

“Increasingly people share personal information – not necessarily banking information – with the networks on those sites and some sites provide very good control over that information and to what extent it is shared, and others don’t.

“We believe that customers need to be well aware of what control they do have and then exercise that control prudently to avoid identification fraud and other such things.”

Corfield said it was a reality that despite the continual investment made by banks in the security of their online channels “people will find different ways of robbing banks”.

“I think actually the key thing is to give the consumer the certainty that if they use these different channels with us we will protect ultimately their money and I suspect that’s going to be the key to making sure these channels continue to gain to get the strong usage that we want them to get.”

Around innovation within the financial services industry, Porges said it was the right time to be standing out from the crowd.

“Now is exactly the time to innovate. A recession is not the time to stick your head in the sand or necessarily ‘stick to your knitting’.

“A recession is the time to actually innovate and take the opportunity.

“That said the innovation doesn’t mean suddenly launching new products. Innovation means launching ways to do business with your customers that are more user friendly and easier for the customer.”

Schenkel said banks needed to find simpler ways for many of their processes.

“The industry has very much been focused on product innovation and has come up with an ever complex sets of products and features which in fact go against the desire of transparency and simplicity as opposed to investing more in service innovation and process innovation and making it easier and simpler to buy products that used to be called complex.”

Saigal said a change in consumer attitude would dictate the pace of innovation.

“Where banks might innovate is looking at what are the customers needs that have changed, whether it’s around savings, simplicity, empathy, advice, and by nature you would pretty much argue that you will see innovation around those areas, and not necessarily more structures or more complex products but things that will address customers’ needs for more savings, more simpler products, easier ways to get advice and information.” **ABF**

VALUE OF DATA IS PRICELESS

A survey of retail financial services executives, conducted by Experian, has shown that financial institutions are at a tipping point in customer data management.

Out of the respondents, 82 per cent agreed or strongly agreed that it was more difficult today to differentiate their services from competition.

A majority (54 per cent) are focused on growing existing customer spend and only 32 per cent rated quality and accuracy of customer data in financial institutions as poor.

More than 80 per cent said data

quality and accuracy would improve over the next three years, largely driven by sales and marketing influences.

However, despite an apparent recognition that customer data is valuable to the business there seems to be an indifference for database integration across a financial institution – a key in developing quality customer data – with only three per cent of respondents having a fully integrated customer database.

“The results show that retail financial institutions are struggling to set their services apart from competitors in

the current market,” Experian general manager Matt Glasner said.

“It is widely acknowledged that today’s customers want increasingly personal and relevant services.

“With this in mind, there is an opportunity for financial institutions to improve customer data management to better target individuals.

“Financial institutions must have an increased understanding of their customers and prioritise customer database accuracy as their point of difference in today’s competitive marketplace.” **ABF**

