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Retail Banks and thePriority System to Balance: Strategy, Capital, People, Process and the Institutional Stature

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Abstract

Many different external causes, such as deregulation and re-regulation, competition, financial innovation, and technology have been generally seen by bankers as important external drivers for changing bank strategies and their strategy focus. All this is forcing banks to face massive management, structural, ethical and regulatory challenges. The aim of the paper is to outline how much strategy and institutional stature are relevant to retail banks for developing their renaissance. After a brief overview of the challenges which at present retail banks are facing both in the market and after the financial crisis, the paper is focused on how to boost bank transformation and highlight the bank relevance in the market. This is also done by presenting a brief outlook on some of the world's retail banks strategies, emphasizing their degree of focus. In the conclusions the paper outlines the need to develop a priority system for a retail bank to undertake in order to regain and deserve bank customers' trust.

1. Introduction

In recent years, the conceptualization of the banking business has radically changed. Many different external causes, such as deregulation and re-regulation, competition, financial innovation, and technology[i] have been generally seen by bankers as important external drivers for changing bank strategies and their strategy focus. All these factors led to a profound change of bank business models while altering their incentives to take on risks. These changes impacted on several dimensions, such as: size, recourse to non-interest income revenues, corporate governance, and funding practices, which, in turn, were all affected by the macroeconomic and competitive environments. The impact and respective adjustment paths (in terms of strategic reactions to the external drivers) may differ to varying degrees from one bank to another, depending on factors like the historical evolution and existing institutional structure of each system, together with its present development level and capacity for change. The largest banks in many countries have transformed themselves, typically via mergers and acquisitions, into multi-product financial service conglomerates with offerings including: retail banking, asset management, brokerage, insurance, investment banking, and wealth management. Bank holding companies were increasingly purchasing mutual fund companies, brokerage houses, and insurance firms in order to offer a full spectrum of financial products to their customers. These cross-industry acquisitions were aimed at stemming the continued erosion of market share by rapid consolidation as well as expansion into non-traditional banking products and services. The driving force in every bank was 'share of wallet', the desire to attract and retain more and more of a consumer's financial business.[ii] For the large institutions, the relative weight of banking activities shifted from deposit-taking, lending, securities underwriting, and trust services toward dealer and market-making activities, brokerage services, and own account trading. The corresponding banking sector expansion was financed through short-term wholesale markets and off-balance-sheet vehicles. While banks have been undergoing these changes, a big question has arisen: "Do we still think banks occupy a dominant position in financial services?"

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This is because, after many years of focusing activities to increase shareholder value, banks seem to have lost their way. This has led to a commoditization of some banking products and activities to the point where there is little perceived difference between financial service providers within local, regional, and national markets and other non-financial providers eager to enter the banking market. The aim of this paper is to outline how much strategy and institutional stature are relevant to retail banks for developing their renaissance.Paragraph 2 outlines the challenges which at present retail banks are facing both in the marketand after the financial crisis; paragraph 3 is focusedon how to boost bank transformation and highlight the bank relevance in the market. Paragraph 4 is presenting a brief outlook on some of the world's retail banks strategies, emphasizing their degree of focus. And in the conclusion paragraph is outlined athe priority system for a retail bank to undertake to regain and deserve bank customers' trust.

2. Banks' challenges

From the financial crisis onward, the time for banks to change was accelerated. Excess leverage, under-capitalization[iii], the systematic under-estimation and under-pricing of risks, and the high profitability of banks were all factors, which were enhanced not always by superior banking performance.Most of them have produced a vulnerability of bank profits, increasing their dependency by specific factors (such as movements in interest rates), and some others (such as internal reward and bonus structures) created the conditions toward short-termism and excessive risk-taking to maximize the rate of their return on equity. Each factor, both individually but especially in combination, created the conditions for an over-expansion of banking activity and an artificially enhanced role of banks and other non-regulated financial institutions in the intermediation process. There was, of course, significant variation between banks because different banks adopted different business models. While all banks were affected by the crisis, given its systemic nature, certain factors made particular banks more vulnerable than others. Several of the most developed financial sectors now find themselves on a hard path, struggling to profit in the face of slow economic and credit growth, customer distrust, market saturation, and burdensome regulation.

There are many challenges that banks are facing, and which are common across the world. An important one is the regulatory response, which had and is having the major effects on the financial firms, especially in the US and Western Europe. For the big banks the regulatory pressure has requested to make divestments, or out of desire to reduce the size and complexity of large groups. As a consequence, the overarching motto as banks recalibrate their business model seems to be "back to basics". This message can also be retrieved in some of the main banks' documents. Just to mention a few examples, the Dutch ING says that, "Through divestments, ING has sharpened its focus and became smaller…. We needed to change course. It was evident that we had to restructure our organization drastically, not only because of the crisis and the lessons we drew from it, but because of the increasing call for sustainable financial services, for a change of culture". Also the Singapore's DBS notes that regulators worldwide have tightened standards, and that "There has also been pressure from communities to steer banking back to more traditional and genuinely useful activities". In response, some part of the banking industry has undergone a perceptible shift from expediency to values, from short-term profit maximization to long-term profit sustainability, and from creating banking products that turn toxic to creating ones that facilitate the production of economic goods and services. Regulation creates a mix of pressures: increasing capital, structural changes (e.g. ringfencing) and erosion of the revenue base through consumer protection and conduct interventions. The last point is most progressed in the UK, but is increasingly a consideration across other European economies.

In this scenario, capital decisions seem to be relatively easy: more capital, and higher quality capital, is the order of the day. But, to reduce this vulnerability, much would depend on banks' ability to bring strategy, risk, and capital together at the highest level. Newtechnologies is another threatens to disrupt retail financial servicesbusiness models in developed and developing marketsalike, and it is growing over time. So that many providers have entered the retail banking space. They are retailers across Europe-Tesco, ASDA, M&Sin theUK, Auchanand Carrefourin France, which have developed a rangeoffinancialservicesproducts. But there are also manufacturers in the car industry, which havedevelopedasignificantpresence, expanding their offering into mortgagesandotherservices. Technology start-ups are also looking to exploit developments in technology (such as Fidor in banking, Luup, Paypal with payments and Zopa with C2C lending). Clearly, these aim to leverage the relationship they have with their customers. Consumers are demonstrating increased willingness both to shop around and to purchase financial services and products from nontraditional providers.

Most of them have entered the market by selling credit cards, personal lending and general insurance. Typically, they have targeted these areas because they demonstrate the following characteristics:

- Simplicity (lending and insurance have been considered relatively easy to enter, as they are fairly straightforward and commoditized products); Ease of customer acquisition, and this is because customers' purchasing decisions have been driven by price; Ease of distribution and commercial attractiveness, as a result of their relative simplicity, they have been easy to distribute via remote (online and telephone channels). There has been no need for face to face advice or physical sales locations.

With their entrance in the market, this has matured and moved on. Credit cards, personal loans and general insurance are today highly commoditized. Customers are happy to switch between providers in search of even a slight discount. These products now offer limited potential and profitability. As a result, new entrants are looking at what have historically been regarded as more complex products. These include: payments (a number of new entrants are targeting the emerging mobile payments market), wealth (there are those developing the potential of using Web 2.0 to provide remote wealth services), and also try to exploit a segment, which is regarded as underexploited, that is the small-medium enterprises segment. Also the core bank account is under threat, such as some of the following examples can demonstrate: Emerging consumer account propositions: prepaid card-based account propositions, such as Bluebird, GoBank and Banking Up; Offerings from "native digital" players such as Moven, Simple, and Fidor; Emerging new business account propositions from players such as Holvi and Cashflows; Players from outside the banking industry deriving value in a different way, such as charging merchants for promotion services rather than payments; and Regulators demanding more from banks, such as easy account switching.And also think of regulators in England, which may force banks to allow their customers to instantly change over their current accounts when they switch banks.[iv] Market selection, market entry strategy, proposition selection and development, distribution and channel strategy, target operating model and partner selection are among the main strategic choices the new players have faced. As a main consequence, the market is being re-shaped (disrupted and in many cases stimulated) by a number of these trends, which can be both opportunities and threats to traditional banks. For a long time, retail banking has been a kind of oligopoly market and in their article; Gardener, Howcroft, and Williams put it this way[v]:

[There was] a great deal of similarity between the market players, which resulted in competitors introducing similar, if not identical, competitive strategies. Financial product innovations were also quickly replicated with a corresponding reduction in the initial innovator's reward. These strategic considerations, compounded by a herd mentality, were responsible for the clearing banks duplicating each other's services. An exceedingly wide and diverse range of identical products was offered by each bank with the result that management in retail banking became correspondingly more complicated and less cost-effective.

With this in mind, an industrial approach has been applied to bank strategies and management, while the truth is that banks were, and still are, in the business of services, and thus different from suppliers of physical goods.

Staying competitive in the future will depend greatly on the strategies banks make. The events of the past few years have shown the price to pay for poor strategic decisions, where a short-term outlook prevailed over long-term decisions. Given that, at present there is a need to "return to retail", which contrasts with the recent past when banks sought to diversify revenues, de-emphasize branch networks, and target financial services to a broader range of client.

Now everything is turning to the power of the incumbents, which need to look for a response, both at the individual level and as a system.In both cases, it is interesting to outline that being a traditional institution gives retail banks a privileged position or stature, because individuals like to trust their financial affairs to an organization which they believe will behave in ways that will not be detrimental if unforeseen circumstances should arise. But on the other hand, institutional stature can also be a burden for banks because they are not necessarily good at retail marketing and their attitudes and organizations may not be fairly capable of meeting the challenges of rapidly changing markets.In addition, banks due to an increasingcompetition and diminishing nationalboundaries businesses are seeking to capitalize thepotential of regional/global markets and theeconomics of scale as a way to secure theirsurvival in the new situation. As a resultmany traditional nationally based financialinstitutions disappear as they transform anddevelop a new identity as global businesses.One outcome of such processes is often somedegree of disengagement from their previousnational basis. All of these are having animpact on the evolution of the institutionalstature of the retail bank. On the local community level, disengagementtends to happen when banks rationalize their branch networks in order to improvetheir cost effectiveness. In doing this way, banks are going one step further in the undermining of their own stature. For generations banks have skilfully beenable to commercialize trust by differentiatingthemselves through their institutional stature.

Banks serve fundamental needs both onan individual level and at a community level, which has so far sustained their institutionalstature. Their customers witness thebank moving away from being a trustedinstitution to just another company with afocus on short-term profits.The erosion can be a slow process and hasthe potential to creep up on retail bankswithout them always fully realizing it themselvesand conventional measures of customerloyalty can be misleading. Retail banks stood at the center of the society they served. They were trusted and respectedinstitution. The head of each branchwas a respected figure, whose opinion wasvalued in each local community.They had a purpose. They were relevant at different levels, such as the following:

- Relevant personally, because of their offering products and services consumers want;
- Relevant socially, because of providing society a positive example and exercising a positive influence;
- Relevant economically, because of returning to profit and offering shareholders an attractive and sustainable return. At present, in many instances the dialogue between customer and bank is broken, and banks have to regain and restore their relevance in the market, which has to do with three crucial levels of understanding:

1. The changing nature of the consumer;
2. The impact of change on every aspect of the business; and
3. The new approaches to consumer banking that create and sustain relevance.

2.1 Where do we stand, some years on from the start of the crisis?

During the different waves of the crisis, the banking sector experienced significant losses, which were, and in some respects still are, reflected in banks' share price performance and return on equity. The average cumulative total returns of Euro area, UK, and US financials were very high in the years 2000–2007, but were subsequently fired, in different ways, by the crisis. As regards the book return on equity, following sharp losses for many banks in 2008 and 2009, profitability recovered somewhat in 2010, but it deteriorated again in 2011. What is important is the dispersion in profits, which increased. For banking industry regulators, the financial crisis was more than just a wake-up call. In fact, given the severity of the crisis, a high level of restructuring in the banking sector in the main economies has been addressed through important regulatory reforms, which are likely to spur further restructuring aimed at improving the resilience of banks in general. Even though some of them still remain highly vulnerable to shocks or are perceived as too big or too systemic to fail (see Box 1).

Box 1 - Some relevant areas still to manage

Excessive risk-taking fueled by intra-group subsidies;
Increased complexity, size, and scope;
– Leverage and limited ability to absorb losses;
– Inadequate supervision and over-reliance on bank management, boards and market discipline;
– Increased interconnectedness, systemic risk and limited resolvability;
– Competitive distortions and implicit public support leading to competitive distortions and negative bank-sovereign feed-back loops; and
– In the case of the EU there has also been a lack of institutional framework governing the single market in financial services.

Source: E. Liikanen (2012) *High-level Expert Group on Reforming the Structure of the EU Banking Sector: Final Report,* Brussels, October, pp.89–91.

As a result of the financial crisis, some banks have started to retreat to their home markets, and competent authorities have taken measures aimed at safeguarding domestic financial stability. Some of them have also started to de-risk their businesses and to exit non-strategic markets. This includes putting out for sale capital-dilutive businesses that fail to meet rate of return targets. As far as the deleveraging of banks' balance sheets is concerned, banks are increasing equity capital and/or disposing of assets, as well as making changes in funding structures (such as looking for more stable funding sources than customer deposits), and in bank risk management. However, there can be a risk of bank deleveraging being excessive or disorderly, and this may result in reduced lending to the real economy, as banks have tightened their credit conditions from the end of 2011.

3. Markets trends and changes boost bank transformation

No decision about the future shape or services of an organization can ever be made without a full understanding of the market conditions and dynamic changes within and outside the business. But it would be unfair to ignore the impact of the past few years' difficulties as a fundamental driver of change for this sector. The actual implementation and details of the strategic orientation vary remarkably across countries and between individual banks. Strategic responses are also largely associated with the organizational structure and core values of banks. Given the three external changes, which are the consumer's changing in attitudes and behaviors, the technology evolution, and the regulation, some banks have begun to undertake their transformation such as the following[vi] Creating a new operating model. Most banks are involved in major initiatives to try to drive costs down. There are different approaches to this, which vary both within and between countries. In many instances, technology will play an important role in reducing costs while maintaining efficiency and productivity; creating a better online experience. Banks across Europe are trying to increase their ability to sell more products online. Many have made progress in driving online transactions, but banks generally have been less successful than other industries; Transforming the retail network. A number of large banks already have major branch transformation programs in place. However, some are increasing the number of branches in the network while others are closing branches. Next comes the issue of the future role of the branch and the optimal level of coverage in geographical terms; There is a need to develop customers' use of the online channel and to provide them with more value from this channel and the different channels that are now available and need to be integrated more effectively; There is a to look at new ways of reducing the cost of serving customers; new migration strategies; and the possibility of lower-cost channels.

As a consequence of these changes, banks are mapping out their flight paths to adjust to the 'new normal and they are finding that the level of change required is far beyond the tactical responses they have made to past challenges. This greater scale and impact can be seen in the sheer size and scope of the transformation programs now being launched and worked through. More significantly, all areas of banks' business models are being required to change. A number of common themes have emerged in the programs announced to date. In many cases, banks are seeking to drive their transformation programs faster and further by setting aggressive goals across a number of metrics. They are targeting large reductions in the cost base and staff numbers to generate greater cost efficiency and profitability. However, banks are embarking on this change from different starting points. While many banks are seeking a new operating model to support smaller balance sheets with lower income at lower cost, others are building capabilities to expand from an efficient and scalable platform.Three styles of transformation are emerging to address banks' profitability challenges and growth ambitions, and they are:

- Operational excellence;
- Capability renewal;
- New size and shape.

Some leading banks in Europe have already run stringent optimization programs leading to RWAs savings of over 20 percent. With regard to the improving efficiency of capital, funding, and liquidity use, some of them are attacking the problem in three ways. First, they are improving data quality throughout the enterprise, and especially in capital-intensive businesses such as small business lending and in mortgage lending. Data quality can be improved by extending the effort to collect more detailed information on RWAs. A second way is to boost efficient use of scarce resources and to upgrade related processes. Increasing the level of automation and avoiding manual adjustments in the calculation process so as to reduce errors. And the third way is to explore methodological improvements, including refinements to risk models, to better estimate risk parameters, also increasing their granularity. Finally, it is said that traditionally, most retail banking executives have built performance-management approaches that use incentives based on volumes and revenues; some have extended these to include some notion of profitability; but in the new world, while these ideas continue to be meaningful, some emphasis should shift to ROE or risk-adjusted profitability measures. Banks must understand the impact of every business decision on ROE. They should also adapt the steering of the bank, including the front office, in a way that enables it to optimize ROE.

3.1 From ooperational excellence

Capability renewal and new size and shape to what a bank is this may seem like an elementary question, but it is important to start from the beginning. The word 'bank' evokes different mental pictures for different individuals. Some will think of the quintessential bank building with neoclassical columns and a large vault. Others will envision a balance sheet showing the bank's assets, liabilities, and capital. Still others will fall back on the regulatory definition of a bank, which is, generally, an organization that accepts deposits, makes loans, and invests in securities. For our purposes, however, a bank is both a financial intermediary and a corporate entity. It is a financial intermediary, because it:

- Serves as a financial go-between, taking in deposits from those who save and making loans with those deposits to qualified borrowers;
- Fosters economic development; and
- Acts as a community's economic engine.

A bank is a corporate entity because it is:

- Formed by shareholders;
- Governed by a banking charter, articles of association, by-laws or similar documents; and
- Governed by a board of directors, elected by shareholders to protect their interests, who are ultimately responsible for the conduct of the bank's affairs.

And a bank is also a service provider for many different customers. It sells services that are intangible, and this poses a challenge to bankers. This being the case, banks has played a critical role in every country, facilitating commerce from a macroeconomic standpoint: they operate the payment system, are the major source of credit for large swathes of the economy, and (usually) act as a safe haven for depositors' funds. The banking system aids in allocating resources from those with a surplus (depositors) to those in deficit (borrowers) by transforming relatively small liquid deposits into larger illiquid loans. In addition to these on-balance-sheet activities, banking organizations have long engaged in traditional off-balance-sheet operations, providing loan commitments, letters of credit, and other guarantees that help counterparties plan for future investments and in some cases gain access to alternative sources of external finance, such as the commercial paper market. In the long term, they also provided a wide range of derivate contracts that allow counterparties to hedge their market risks. Modern banking may have had its origin with the establishment of the Bank of England (1694), and the Bank of Scotland (1695). Before that date, the banks, such as Banco di Venezia (Italy, 1191–1797), Banco di Genova (Italy, 1407–1797), Bank of Hamburg (1619), Bank of Stockholm (1668–1754), and the Bank of Amsterdam (1609–1790) were banks of deposit. And this is because the inconvenience of handling and storing a large number of coins, and the risk of theft, led to the establishment of these banks of deposit. Modern banks, instead, are banks of discount as opposed to banks of deposit, and they have given an enormous impetus to commerce. They create credit that circulates in the same way as money and in a far more convenient, safe, and economical form. Over time, their set of services became more and more diversified, from checks to bank transfers, from debit cards to credit cards to digital wallets. In doing so, banks have become a system that brings together savers and borrowers. And this wasand it still is their main *raison d'être*. When customers' needs change then banks might decide to follow these requests and this also is going to change the customers' relationships. In this evolution two facts might also happen and they are: the first is that banks may expand and extend themselves beyond their core competencies, and in doing so, the organization become more bureaucratic and less agile in the face of change. And when the combination of adverse conditions occurred, it causes the infrastructure of organizations to implode, crippling their ability to function profitably. That is when the underlying bureaucratic infrastructure cannot sustain operations in the face of the rapidly changing business environment then the most damaging competitor for a bank can be its own organization when it starts growing and defocusing.[vii] And secondly, when banks are undertaking their changing phase, they have to keep up with their relevance in the everyday life of their customers (both individuals and businesses). Relevance is important because it affects the conversion rate, because people are more likely to buy something that is of interest to them and relevant to their needs, and finally because it affects customer goodwill.

Customers have moved from the industrial age of 'make and sell' to the information age of 'sense and respond,' and if banks do not become once again relevant to them, they will lose their market position. And this is a useful lesson we can learn from past: that banking is not in search of relevance but banks are.

4. There is a need for a priority system to drive bank strategy

Consider these statements of strategy drawn from some documents and announcements of severalcompanies:

"Our strategy is to be the low-cost provider."
"We're pursuing a global strategy."
"Our strategy is to provide unrivaled customerservice."
"Our strategic intent is to always be the firstmover."

What do these grand declarations have in common? Only that none of them is a strategy. Theyare strategic threads, mere elements of strategies.But they are no more strategies than Hannibal's strategy was to useelephants to cross the Alps. A strategy consists of an integrated set ofchoices, but it isnot a catchall for every importantchoice an executive faces. The company's mission and objectives stand apart from, and guide, strategy. The objective of being numberone or two in all its markets drives the strategy, but again is not strategy itself. Nor would anobjective of reaching a particular revenue or earningstarget be part of a strategy. I do not mean to portray strategy developmentas a simple, linear process. Strategy is a iterative process, which need loop thinkers. The key isnot in following a sequential process, but rather inachieving a robust, reinforced consistency amongthe elements of the strategy itself. Therefore, if a business must have a strategy, then the strategymust necessarily have parts. What are thoseparts? A strategy has fiveelements, providing answers to five questions:

1. Arenas: where will we be active?
2. Vehicles: how will we get there?
3. Differentiators: how will we win in the marketplace?
4. Staging: what will be our speed and sequence ofmoves?
5. Economic logic: how will we obtain our returns?

As banks are recovering from the financial crisis and worldwide recession, many of them remain in a fragile state or are still trying to identify the best strategy for going forward. These banks are preoccupied with rebuilding or strengthening their capital base, toughening compliance and streamlining operations. All this may have as a consequence not to be focused on their retail banking strategy. Capital, risk, and strategy are deeply connected in banking. Because capital management is inherently linked to risk and a bank's risk appetite influences its strategic choices capital management is the way that risk management finds expression in bank strategy at the highest level. Capital is absolutely interlinked with strategy, and this is because when a bank looks at capital management, it has also to think of: what's its strategy? Where do they want to grow?' And what's its risk appetite in each of the areas it is focused on? A bank's risk appetite depends on many factors, including its competitive landscape, its existing competencies, and its footprint and growth aspirations. For example, does a bank want to take market share in the housing market? That might force it to go back on housing. The ties between capital and strategy give good reason to predict that changes in capital requirements will eventually lead banks to change their businesses in response. But this time it has to be different. Because historically the regulatory requirements on a certain activity exceed what they think the economic capital requirements might be, then banks adapt their business models to best optimize what they see as the risk/reward characteristics, been the goal, and there were changes to banks' businesses over time in the past. Basel I is a perfect example. Mortgages were accorded a much lower capital charge then they had been in the past and the rest is history. It is also interesting to notice that banks, from this crisis, learnt that some model outputs are interesting, but they do not always tell everything you need to know. They are based on historical data, which doesn't necessarily tell you where the world is going. A lot of this is still judgment, experience, and observation. People managing banks have to become much broader in their thinking, learning interactions and are a very coordinated effort now, rather than doing it piecemeal around the organization. Developing a strong enough sense of culture and identity to guide behavior in times of distress takes time, effort, and attention. KeyCorp's strong corporate culture served it well during the crisis, notes Mr. Hyle. "I think one of the things that have emerged from this crisis is that those institutions that have very strong cultures have tended to perform better than those that don't. It doesn't necessarily mean they have the same culture; it's just that they have a culture," he says. "In times of crisis and volatility, people with a strong culture instinctively know what to do.…

I think the industry has underestimated historically how important a strong, consistent, firm wide culture is in terms of managing not just risk, but managing the business as a whole," he continues. "We're spending more time on culture on training and on creating a consistent culture across our organization than we ever did in the past.[viii]" There are many opportunities for innovation in retail banking strategy. And to do so retail banks need to blend the visionary leaders with an independent-minded, sometimes risk-averse advisors, management teams and boards. The person on the brake pedal is as important as the one on the throttle. And overall retail banks would greatly improve their customer service rating by investing much more effort into staff education and empowerment. This is because retail banking is a people business. Success does not just happen; it is the result of bank management making the decisions that develop certain fundamental characteristics.

There is still much more to be done in this area, and in others. But most of the big institutions are now running programs aimed at recalibrating their priorities and sense of purpose. And it is interesting to outline the need for banks to re-evaluate strategy overall. "We want to go basically back to what we were, back to our roots as a cooperative bank in the Netherlands, with a focus on international food and agribusiness," says Mr. Emmen head of group risk management of Rabobank. "Given the fact that Tier-One ratios will have to be high, because solvency will be higher, or we'll have less capital, we'll have to change our business profile a bit.… We have to look at how we are doing our activities, how they impact our capital ratios, and at the bank we want to be, based on two dimensions: what is the strategy going forward? And how do we have to structure our business to make the most out of it?" he continues[ix].

4.1 Retail banks' strategies: an outlook of the world's largest banks

Even though banks around the world may often have similar retail strategies, they are having varying degrees of success in implementing them. It is not going to deal with the implementation process; rather it is to outline the bank's different degree ofbeing focused. This is because size can be important determinant of bank's risks. But size, per se, does not seem to matter as much as focus. Given this, I want to refer to a recent Lafferty research (2014)[x], which has been analyzed and classified more than hundreds banks' strategies around the world into three categories, which are: focused, fragile or fuzzy (see Box 2).

Box 2 Focused, fragile or fuzzy retail banking strategies: what all this mean?

The terms 'focused', 'fragile', and 'fuzzy' refer to the retail banking strategy[xi], not to other businesses banks may engage in or the overall performance of the bank. The term focused (FO) refers to those institutions which have developed a clear strategy with specific objectives and that is described in detail in their report to investors. They are sticking to original strategy; adapting quickly to the changing environment; rapid expansion of mobile channels and apps; segmentation of clientele to provide different levels of service; continuing innovation; targeting of credit, debit and prepaid cards; transforming branches to advisory centers; organic expansion rather than acquisition; renewed discipline in geographic focus. These banks do not just talk loosely about 'leveraging our resources to improve the customer experience', but cite chapter and verse on what products and services enable them to do that.Banks that do describe themselves in such generalities may have more specific ideas in mind, but they are not communicating them. It may be clear to management but the bank's brand and goals remain fuzzy (FU) to the outside observer. And, in fact, it may not be clear to a reticent management, still trying to figure out what to do next. Fragile (FR) is the word for banks that are hardest hit by the financial crisis; have suffered enormous financial and reputational damage; most of them were engaged with investment banking and mis-sold mortgages; hit by fines and restitutions; preoccupied with rebuilding their capital base, and streamlining operations. Even if they seem to put on a brave front, are clearly back on their heels. It is a defensive posture that characterizes some of the world's biggest and most renowned banks.

The view is derived from the descriptions banks made themselves in their most recent annual reports, where each institution is describing its intentions forward for investors. In fact, scanning through an annual report will convey many important messages, including:

- What is the primary business of the bank?
- What the CEO is most excited about;
- Whether the bank has a credible organization structure, and last but not least; and
- Whether the bank cares about critical matters like customer satisfaction andstaff morale.

According to the research the large majority of banks (78 banks) in the report were deemed to be focused in terms of their retail banking strategy. In Table 1 is represented a selected sample of banks from North America and Europe, which are classified accordingly.

Table 1 A selection of focus, fragile and fuzzy strategies

<table>
<tr><th></th><th>Focus strategy</th><th>Fragile strategy</th><th>Fuzzy strategy</th></tr>
<tr><td>Banks in North America</td><td>Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, National Bank of Canada,
Keycorp, …</td><td>Bank of America, City, …</td><td>Wells Fargo, JP Morgan Chase, …</td></tr>
<tr><td>Banks in Europe</td><td>BBVA, BNP, Credit Agricole, Nordea, Santander, SociétéGénérale, ING …</td><td>Barclay, Commerzbank, Deutsche Bank, Royal Bank of Scotland, Unicredit, …</td><td>Credit Suisse, HSBC, Intesa Sanpaolo, Rabobank, UBS</td></tr>
<tr><td colspan="4">Market-leading trends:
- Rapid expansion of mobile channels and apps
- Segmentation of clientele
- Streamlining of application and approval processes
- Continuing innovation and targeting of credit and debit cards
- Transformation of branches especially for upper segments
- Focus on organic expansion and a renewed discipline in geographic focus</td></tr>
<tr><td colspan="4">The ‘new basics’
- Making the banking experience easy and convenient
- Making the physical branch pleasant and training staff accordingly
- Investment in IT platforms and software applications
- Customer satisfaction surveys</td></tr>
<tr><td colspan="4">Regional trends
- North America spans all categories. Even though Citi and Bank of America are busy restoring capital while Canadian and US super regional banks remain much focused. While JP Chase is still finding its way in retail banking (fuzzy). Furthermore, growth at the margins gives an hedge to midcap banks.
- Europe. The Euro crisis and the Libor scandal have hardest hit European banks and so there is the largest portion of fuzzy and fragile banks. There is still to show evidence that sustainable recovery is under way. Market leaders distracted by the need to rebuild capital and streamline operations.</td></tr>
</table>

Europe, and especially the UK, was hard hit by the financial crisis, and continental banks are suffering from the debt crisis in the Eurozone. In fact, Europe has the largest proportion of fuzzy and fragile banks of any region.Many of the mega-banks in Europe and also in North America, for instance, are struggling to recover. While the markets give swift feedback on a bank's capital management, their judgments by necessity are made in comparison to other banks' performance. Capital decision making unfolds in the larger competitive landscape, and capital metrics are fundamental to demonstrating the success of a given strategy to investors and to the public at large. As a matter of fact, some of the big banks of the US and Europe seemed to be in a fragile state, while the leadingbanks of Canada, the US regions, Australia, Africa and some parts of Europe andAsia are focused and moving ahead.

UK high street banks are retrenching, shedding branches, and rebuilding capital and in general have adopted a defensive posture that carries a good dealof opportunity cost as their capital and energies are diverted from growth. Thecase is similar, if somewhat less drastic, for market leaders in other Europeancountries. Even Rabobank, the retail leader in the Netherlands, is shutting downbranches, lying off staff and has divested itself of its leading asset managementaffiliate, Robeco. These big, mature institutions will continue to adapt, but theirpreoccupations keep them from adopting any cutting-edge strategies.In any case, their troubles are forcing Europe's banks to focus more on retail bankingas a source of low-cost funding and low-risk lending. This is a marked shift fornational champions like Deutsche Bank or BNP Paribas, which have spent decadestrying to establish themselves as global investment banks. Santander is pursuing a niche retailstrategy in Europe outside Spain but focuses its main efforts on Latin America, while BNP Paribas is still leveraging legacy franchises it has in the Low Countries.

Meanwhile, one of Europe's biggest banks, Deutsche Bank, is remarkably tightlippedabout its retail banking strategies, either in its home market or elsewhere.Instead, the bank, which for decades sailed serenely as one of the continent'sstrongest institutions and unchallenged leader in its home market, appears to beon the defensive. Its new *Strategy 2015+* (a plan with specific goals for revenues,expenses, income and so on), finds bank executives recognizing "that we operatein an environment of tighter regulation, higher public scrutiny, more rigorous capitalrequirements, pressure on margins and business volumes, and historically lowinterest rates". They continue: "We aspire to be the world's leading client-centricglobal universal bank. We are convinced that this model serves our clients mosteffectively, offering them an integrated range of products and services wherever inthe world they need us….We remain convinced that the universal banking model, competing on equal terms with our peers from other regions of the world, is in theinterests of our clients, the financial system and Europe's economy".It is the exceptions in Europe, like Banco Santander, which continues to expand inretail banking, that prove the rule. Other exceptions to the rule of weakened bankswith fuzzy strategies are the 'stick-to-your-knitting' banks in the Nordic countriesand the less venturesome cooperative and savings banks in France. These are wellpositionedto respond to the public's desire for banks that are able to keep pace with retail client demands for 'more, better, faster'.However, there is also a growingtrend in Europe, particularly among large banks, to operate as a financialconglomerate in a range of financial services markets such aslife insurance or asset management, as already mentioned.

Then there are those banks that never moved away from the basics as in the case of the leading banks of Canada, Australia. And also the US super-regional banks, some African and Asian banks, which are enjoying health and building on their existing momentum. These banks have remained focused, sticking to their original strategy or adapting quickly to the changing environment. The market-leading trends of these banks include: a rapid expansion of mobile channels and apps, a segmentation of clientele to provide different levels of service, streamlining of application and approval processes, continuing innovation and targeting of credit and debit cards, a transformation of branches into financial advisory centers, a focus on organic expansion rather than acquisition, and a renewed discipline in geographic focus.

5. Conclusions and suggestions

Nobody knows what the future holds. But there is one thing, which can be known for sure retail banks, as they are known, are not going to disappear any time soon, but they certainly have to evolve to maintain their relevance in the market. Furthermore, they should not neglect their institutional stature. If retail banks wish to halt the erosion of their institutional stature they need to examine the drivers that undermine their business, address them and regain a positive influence over customers' everyday life. I suggest that retail banks refocus on their institutional stature and differentiate themselves more clearly from the influx of new service providers. Greater focus and understanding of banks' institutional stature is also of extreme importance for regulators as they steer retail banks towards new paradigms and business models. To make strategic decisions with confidence, banks must have a firm grasp of the risks inherent in their various activities. As we move into this post-crisis environment, I expect that the assessment of strategy, risk, and capital will become more sophisticated, integrated, and nuanced. In fact, some banks realized that they had failed to properly understand the forces that affect them. Historically, institutions used relatively standardized or industry-accepted metrics for assessing risk and risk-adjusted returns and investors in the past proved willing to accept these metrics there is now a greater understanding that standardized metrics alone are not sufficient for understanding risk across the organization. While sometimes, they had driven, di per se, banks' strategies. At present, regulatory authorities want banks to provide a comprehensive view of the market forces and risk-return scenarios across business areas and asset classes. On top of this, banks also need to restore their customers' trust. As the market is going to be dynamic the roadmap to the future is to gather skills and competences to exploit temporary competitive advantages that, however, will not be sustainable over long time. Therefore, banks need to forge both the corporate strategy and the organizational structure around the principle that for a certain time their business will need to be prepared to rely on competitive advantages which should last for a time, but be able if things change to develop 'new' ones, or revised them. 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.

Staying competitive will depend on the decisions banks make as events of the past few years clearly show the price banks will pay for poor strategic decisions. But in future, successful banks will have to work at some of the following actions:

- Run a bank like a business with a focus;
- Change a bank *versus* make it different and consistent;
- Show no lack in accountability;
- Nurture a culture of fact-based decision-making;
- Capitalize on unique data, creating an approach that works for them, instead of copying the competition;
- Create a clear strategy for analytics implementation, and renovate and renew all that when really needed;

Innovate, but keep an eye on the combination of creativity and implementation. Innovation does not always have to be disruptive; it can also include doing old things in new ways. This may include ideas originating outside the bank organization that can be customized for an organizational context or clientele. All this actions come from the level of each individual bank, but the banking system may also play its role.Focusing on the latter, among other step,it is interesting to highlight the case for Britain's big banks, which have committed themselves to a program of setting voluntary standards, promoting professional education and improving culture, competence and customer outcomes across the industry. The intention is that all banks operating in Britain, including foreign-owned organizations will opt to become members of the Banking Standards Review Council (BSRC) (see Box 3). It is essential to go back to link people to strategy and operations. And also, there is the need to restore dignity to the people process, which is more important than either the strategy or operation processes. After all, it is the people of an organization who make judgments about how markets are changing, create strategies based on those judgments, and translate the strategies based into operational realities. The new wave in people process is not to have a backward-looking, focused on evaluating the jobs people are doing today.

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[i] See European Commission (1997) Credit Institutions and Banking, Subseries II: Impact on Services, Volume 3, The Single Market Review, Brussels: Kogan Page. SeealsoFrei X.F. et al. (1998).

[ii] Frances X.F. et al. (1998), pp.4–5. Furthermore: "One major explanation for this industry's consolidation is the desire to have sufficient size to exploit scale economies in transaction processing, and scope economies in cross-selling multiple financial products to a household".

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[vi] Source: Accenture (2012) *New Size, New Shape, New Role: How Banks Can Rise to the GlobalTransformation Challenge*; and KPMG (2014) *KPMG Transformation Survey: Business Transformation and the Corporate Agenda*.EFMA/Microsoft Survey (2010) *Transforming Retail Banking to Reflect the New Economic Environment: The Changing Face of Retail Banking in the 21st Century*, p.4ff.

[vii] J.A. DiVanna (2004), p.17.

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[ix] CFO Research Services and Ernst & Young (2010), Capital management in banking. Senior executives on capital, risk, and strategy, June, p.5.

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[xi] For this purpose, retail banking includes deposit and loan business with individuals and SMEs, as well as consumer finance, credit cards, wealth management, brokerage and insurance.