The Future Structure of the Banking Industry

John Beckford

Birmingham Business School

31st January 1996

Two levels of Structure

- Finance Industry
- Individual Organisations

Common Change Drivers

- Centralisation of power
- Globalisation
- Information Technology

Centralisation of Power

- The tendency of energy to equilibrium, the tendency of organisation to disequilibrium

Globalisation

- Banking was the first truly globalised industry
- 24 hour world-wide operations

Information Technology

- Banking is an information based industry
- Development of IT renders redundant many of the traditional protocols
- Cost of established delivery systems is too great

Emerging Factors

- Inability to service needs of ultra-large corporations
- Over-banked societies
- High operating costs
- Opportunity for new players to enter industry and squeeze margins (e.g. Direct Line, Virgin Direct)
- Uncompetitive investment returns
- Increasing distrust/disillusionment
- Abuse of powerful positions

Conclusion

- Banks in their current form are dinosaurs
- Radical change is essential for survival

The future structure of the industry

- Tendency to centralisation and globalisation will lead to:-
- Collaboration
- Mergers
- Takeovers

Leading ultimately to:

- 9 – 12 ultra-large worldwide banks
- (3 – 4 each in Europe, America, Asia-Pacific)
- Consequences:
- Effective control of national economies
- Domestic banks will be subsidiaries
- Decreasing consumer choice
- Example: motor industry

Information Technology

- Banks provide three principal functions:
- Store money (value)
- Transmit money
- Lenders of money
- Basis of operation:
- Trust
- Confidence
- Relationships

BECKFORD CONSULTING

Information is:

- The key to the three functions
- The driver of the operations
- The future belongs to:
- Those who handle information best!

Competitive threat:

- Other information based organisations will seek to enter the banking market
- Because they:
- Perceive potential for high returns
- Have established relationships with the customers (particularly for the personal market)
- Control the information networks
- Have potential to provide high quality, low cost, direct services

Possible entrants:

- British Telecom
- IBM
- Digital
- ICL
- Siemens Nixdorf
- Telecential
- Insurance Companies
- Building Societies

Providing:

- Cash services through supermarkets
- Direct sales through retail outlets

Possible Barriers:

- Regulatory authorities
- Expertise
- Access to Clearing System

Overcome by:

- Deregulation
- Redundant Senior Bank Staff
- Established, but perhaps unarticulaetd industry knowledge
- Alternative electronic clearing system

Defensive strategy:

- A new vision comprising:
- Branchless networks
- Computer and telephone based services
- Pre-agreed lending facilities
- Paperless systems
- Few people
- Minimal cash handling

Leading to:

- Reduced costs
- Reduced charges
- Potential to maintain profitability
- Retained customers

Application:

- Personal Customer base (Mass-market and HNWI
- Small and Medium Enterprises
- Supported by:
- Personal Expertise (those willing and able to pay)
- Charged on a time rather than a percentage basis

Corporate market:

- Continuing trend to “Corporate Treasury” functions
- Segmented banking:
- Each service through the lowest cost provider
- Alternative funding sources:
- Private capital
- Venture capital
- Joint ventures
- Aim: to lock the funding provider into the success or failure of the venture

Opportunities

- Offer "Corporate Treasury" service as an outsourced function
- "Entrepreneurial" bankers i.e. banks as equity partners, not simply lenders

Implications:

- Select Corporate offices offering expert advice
- Increasing specialisation
- Potentially, expertise separated from the money

BECKFORD CONSULTING

Summary:

- Banks must change to stay in the game
- Minimal branch networks
- Few, but highly expert staff
- No “factory” jobs
- Select “Corporate” offices
- High dependency on IT

Conclusion

Adapt or Die!