

## The European savings and retail banks: long-term customer focus guarantees the future

The occasion of the Sparkassentag is a moment when the interest of the commercial banks in Germany and abroad for the savings banks sector triggers an intense discussion on the reason to be of these institutions, not only in Germany but far beyond its borders.

At the same time, a seemingly endless race for scale and profit growth via an impressive wave of mergers and acquisitions raises questions on the ideal business model of our financial institutions and forces us to come up with an answer to the following questions: Is the future of a financial institution determined exclusively by its size and outreach and are domestically oriented financial institutions an outdated business model? Is the pursuit of shareholder profit the only thing that matters, or should a financial institution also follow other values?

### Long-term stakeholder value

Formulating an answer to these questions means sketching the future of Europe's savings and retail banks. Finding the key for the savings banks' future success is easy, since it will be the same as in the past: the extraordinary close relationship that savings and retail banks have been able to maintain with their customers and the mutual trust that characterises this relation. In the end, this profound relationship is more important than company size and shareholder profit alone, since it creates stakeholder value over the long term.

The following lines will give more detail on the question if size really matters for a financial institution, and they will also illustrate this with a few domains where the strengths of savings banks are particularly obvious. In the second part of this

text, the values that characterise savings and retail banks will be discussed.

### The force of a domestic focus

In the last five years, more than ten percent of the financial institutions in the European Union have disappeared while at the same time the number of branches increased. This trend of consolidation on a domestic level is accompanied by an internationalisation of banking operations. It is important to note that internationalisation either by organic growth or by mergers &

acquisitions is no longer a wholesale matter – even if investment and wholesale banking show less domestic idiosyncrasies and can thus be integrated in a much quicker and smoother way. This phenomenon concerns currently more and more retail banks. Testament to that is the acquisition of Abbey National (United Kingdom) by Santander (Spain) of BNL (Italy) by BNP Paribas (France) of Hypovereinsbank (Germany) by Unicredito (Italy) and of course the merger negotiations between ABN Amro (Netherlands) and Barclays (UK) on one hand as well as the RBS/Santander/Fortis consortium (UK/Spain/Belgium, Netherlands) on the other hand.

To immediately kill one misconception about savings banks and retail banks: they are not against consolidation and international expansion. Some of Europe's savings banks have initiated in the recent years an international expansion, such as the highly successful Central and Eastern European expansion of Erste Bank from Austria or the expansion in Northern Europe of Swedbank. Most of the members of the European Savings Banks Group have been active players in a domestic consolidation wave that was aimed to increase efficiency and scale of the financial institutions.

But consolidation is not a panacea. It cannot be the sole objective, the sole raison d'être of an institution or a sector. Another and equally valid way to pursue growth in a considered and stable way is to increase the domestic outreach of a financial institution. A mere glimpse on the strong position of French, German, Spanish, Swedish and other European savings banks in their respective countries demonstrates that this approach also constitutes a road to success. By maximising its presence in a certain country or region, by cross-selling products and services to existing clients

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*Ist größer immer gleich besser? Betrachtet man die Zahl an Bankenfusionen in Europa in den letzten Jahren möchte man fast mit „ja“ antworten. Auch wenn die europäischen Sparkassen Konsolidierung und Internationalisierung nicht verteufeln und sich beides auch selbst zunutze machen, so hält der Autor für den Sektor als „Schlüssel zur Zukunft“ jenes altbekannte Mantra der regionalen Verbundenheit hoch. Die starke Marktposition der Sparkassen in Frankreich, Deutschland, Spanien oder Schweden etwa will er als Beweis gewertet wissen, dass lokales Wachstum eine gute Alternative zum Konsolidierungshunger der Global Player ist. Das generell zu konstatierende Interesse von privaten Banken an der Übernahme von S-Instituten untermale deren Potenzial. Weil die Rolle der Sparkassen über die Gewinngenerierung weit hinaus gehe, so eine seiner auch hier geläufigen Kernthesen, liege es insbesondere an ihnen, die Vorteile der Globalisierung allen Segmenten der Bevölkerung zugänglich zu machen – die Realität sei der Kunde, und der lebt „um die Ecke“, in Deutschland wie Europa. (Red.)*

and capitalising on a long-term commercial relationship, the savings and retail banks of Europe have created a retail franchise in their countries that is being envied by a lot of commercial banks.

### Domestic specificities ...

A lot of banks have learned – sometimes the hard way – that international expansion cannot succeed without careful consideration of the domestic specificities, the cultural preferences and the local product and service demand. This requires a sophisticated, flexible strategy, based on detailed knowledge of the local markets. And this knowledge of their local markets, of their natural client segments (individuals, SMEs and local authorities) is a longstanding and unrivalled competitive advantage for Europe's savings banks.

In combination with an extensive distribution network and the ability to market highly scaleable products and services even to low-value customers, this compensates for the lack of a large international network and the economies of scale that come with it. This is something that characterises every savings and retail bank in every country of Europe and that constitutes one of their basic strengths and one of their main guarantees of a bright future. The best illustration of this is the energy that is deployed by other financial organisations to capture the domestic operations of savings and retail banks in many European countries, including Germany.

A good example of specific market knowledge is the relationship between savings banks and SMEs. Often referred to as the drivers of the European economy and serving as main creators of innovation and jobs, SMEs represent a major part of any domestic market in the European Union and are increasingly active on an international level. It is estimated that the some 23 million SMEs in the EU provide for approximately 75 million jobs. 99 percent of all enterprises in Europe are SMEs, under the European Commission's definition of an enterprise with fewer than 250 employees, and in some industrial sectors, they represent almost 80 percent of the total employment.

These dynamic organisations have found their natural business partners in the savings banks sector. As the champions of

proximity banking, savings banks have a locally rooted network that is able to provide a whole range of financial products at a local level, giving entrepreneurs access to loans, guarantees, micro credits as well as to the equity and capital markets. This local presence, combined with the objective of maintaining long-term commercial relationships, explains why the savings banks are the main providers of finance to SMEs in many European countries. In Germany, for example, three out of four businesses are customers of the Sparkassen-Finanzgruppe, that can claim a general market share of 40 percent, increasing even to 70 percent of SMEs with an annual turnover of under 0.5 million euros (small and micro enterprises).

Similar impressive figures are produced by, for example, the Spanish savings banks, which account for 45 percent of the market in SME lending and the Swedish savings banks, reaching a share of approximately 35 percent in their home market. The knowledge of this sector, the trust that has been created over the years cannot be replaced by the ambition of a global player interested only in cherry picking the market to satisfy a short-term profitability objective.

### ... and cultural preferences

The attendance of the financial needs of population groups that come from migration is another excellent example of the increase of the commercial outreach of savings banks in their historic domain of action. We live in a world without frontiers, and every European country has migrant groups that send the money that they earn by working in our economies back to their families in their home countries. Savings banks are ideally placed to offer high-quality remittance services at a fair price to these customers, since they are able to process low added-value transactions in a profitable way and since the threshold to enter a savings bank is often significantly lower than it is the case in other institutions.

The fact that savings banks and like-minded institutions are present in most countries of the world – another significant strength – is a trump card that savings banks in Europe are using more and more. But it should not be forgot that the financial needs of these population groups are

certainly not limited to the sending and receiving of international remittances, even if this market segment has witnessed an impressive growth and accounts on a worldwide basis for more than the official development aid. The lowering of the threshold to attract and retain customers can and should also lead to a product and services offering that is well-targeted – such as Islamic financial services – and that can only succeed if it is based on a good knowledge of the existing or potential customer. The customer of a savings bank will quickly acknowledge that the marketing offer of the institution is based on the will to create a long-term relationship. The offer of Islamic financial services by some European savings banks, such as pioneering institution Lloyds TSB in the United Kingdom is yet another example of the strength and the flexibility of the savings and retail banks model.

### Stakeholder model against shareholder model

Profits are good. Profits are necessary to guarantee the long-term future of any company. But profits should not be generated for the sole profit of the companies' shareholders. Instead of mistaking the means for the sole objective, as many financial institutions pursuing short-term shareholder profit currently seem to do, savings banks firmly believe in the stakeholder model, that takes into account the interests of shareholders, but also of clients, suppliers, employees, authorities and the society at large.

This "responsible attitude" of savings banks begins in the institution itself. Many savings banks have put in place specific stakeholder policies and various institutions are member of the UN Global Compact initiative. Various savings banks, for example in Germany and in France, are active in the field of financial education for their customers and for the general public. The responsible attitude of savings banks is thus visible outside the institutions. Excellent examples are the substantial contributions to cultural, social or environmental projects that are made year after year by German, French, Spanish, Italian and many other European institutions. Either directly or through foundations, savings banks help restore monuments and organise cultural events. They help protect nature and support social insertion projects.



This is not the result of a carefully developed marketing campaign, aimed at increasing profit by all direct or indirect means. It is often the very reason why savings banks have been created in the first place and it has become so natural and obvious in many countries that people do not even think of it anymore.

By supporting a multitude of projects on a long-term basis, savings banks have indeed anchored themselves firmly in their region, their town, in the daily lives of their clients. These people appreciate that savings banks link their destiny to a large extent to the destiny of their region and will not abandon the people that live there, the craftsmen, the entrepreneurs, even when times are tough and the regional economy suffers.

#### **Globalisation is a regional matter**

The belief that globalisation cannot work without bringing the benefits to the people characterises our institutions and is another of our major forces. Let's not be

naïve: open markets and competitiveness alone are not sufficient to bring welfare to all segments of the population. We will always need political and economic structures that enable people to take control of their own destinies. These local structures are an ideal breeding ground for flexibility and creativity, which are the basis of competitiveness. When the local, the regional dimension of a problem gets lost, strategies and decisions are quickly out of touch with reality.

Savings banks, in the past but even more in the future assume tasks and missions that will never be fulfilled by global competitors, interested only in short-term profits. This reality-proof is a guarantee of success for savings and retail banks: no institution, whatever its size or outreach, can survive without keeping in touch with everyday reality. For a financial institution, be it a global behemoth or a domestically focused savings bank, this reality is the customer, with its current and future financial needs. This customer lives around the corner, and not on the other side of the globe. This customer needs to process

simple transactions for payments, credits, savings and insurances, rather than complex financial structures. This customer makes more and more use of all modern technologies to access his accounts from anywhere in the world, at any time of day or night but will always value a conversation with a financial adviser that knows his personal situation, that knows the region and that comes from a comparable socio-cultural background.

#### **Common values**

Institutions that incorporate the three values of European savings and retail banks: a focus on retail banking, a strong regional presence and a responsible attitude towards their business and their stakeholders can take on the future developments of the European financial sector with confidence. Today and tomorrow, the central place that the customer takes in our savings banks model, the will to serve the customer on a long-term basis, without losing track of profitability goals but without focusing exclusively on these is the guarantee of our future. ▬