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Retail Banking

INSIDER

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RETAIL BANKING INDUSTRY

Balancing sales with customer satisfaction

MORE SALES MEANS more revenue, but keeping customers satisfied while also selling them as much as possible is a delicate balancing act. It may be tempting for bank managers to crack the sales whip at their staff, but in the long term this can ruin the customer relationship and damage the bank's reputation.

Most banks offer incentives to motivate their staff to sell more, but a study by US consulting firm Crowe Chizek found that – while this results in more sales – if the bank is not well-organised, the staff's efforts can be put at odds with each other and reduce a branch's sales in the long run. Bank managers are aware that they need to use increasingly-sophisticated methods to both increase their revenue and hold onto their existing customers.

Narrower skill sets

Jim Kitay, a professor at the University of Sydney who researches the work environment of retail banks, has seen great changes in the way that banks treat their customers in the last 30 years. Gone are the days of the banker who worked their way up the career ladder and learned every aspect of the industry. Now a bank's operations are divided up, with workers developing a narrower skill set and not necessarily knowing how other departments operate. Kitay says that most call centre staff do not even see themselves as employees of the bank. This is due to changes that occurred in the 1990s, when banks began to view encounters with customers as opportunities for sales. "Bank branches began to be known as 'shops' and so banks reconsidered what they were actually doing," he explains.

During the 1990s there was an emphasis on maximising sales

opportunities and as a result, sales techniques became aggressive. "When I interviewed people in branches, they would never say the word 'sell' just once. They used to say 'they want me to sell sell sell'. It always came in threes," Kitay says.

This kind of cross-selling mantra was familiar to those working for people like Dick Kovacevich, the former CEO of Wells Fargo. He pioneered motivational phrases to encourage his sales staff. At the time, Wells Fargo had an average of five products per customer when the industry average was two.

Kitay found in his research that when this type of training programme was introduced to UK or Australian banks, the staff resented what they viewed as a forceful approach. "The reaction I was getting in my interviews was that the staff felt very uneasy. There are cultural differences between the US and Australia, and even more so with the UK. What you put up with in [the US] is not necessarily what an English person would put up with," he explains.

Indiscriminate selling

An even larger problem was that pressure for results meant there was indiscriminate selling. "In Australia, banks were flogging products that their customers didn't necessarily need," says Kitay. He adds that mis-selling received a lot of bad press and came under political scrutiny, with bank executives realising that their customers and their staff were not happy with the hard sell.

"Selling a product the customer doesn't need is just bad business policy," says Linda Lockhart, director of business development at Cohen Brown Management Group. She points to another fundamental problem: the attitude of senior executives to selling, which filters down to the staff.

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Lafferty Group

One Hammersmith Grove
London
W6 0NB
United Kingdom
t: +44 (0)20 3008 8415
f: +44 (0)20 3008 8426

EDITORIAL

Michael Lafferty

Editor-in-Chief
e: michael.lafferty@lafferty.com
t: +44 (0)20 3008 8425

Olann Kerrison

Editor
e: olann.kerrison@lafferty.com
t: +44 (0)20 3008 8417

Lisa Leano

Deputy Editor
e: lisa.leano@lafferty.com
t: +44 (0)20 3008 5267

Ronan McCaughey

Senior Reporter
e: ronan.mccaughey@lafferty.com
t: +44 (0)20 3008 5268

Jane Cooper

Reporter
e: jane.cooper@lafferty.com
t: +44 (0)20 3008 5284

James Scoltock

Researcher
e: james.scoltock@lafferty.com
t: +44 (0)20 3008 5263

SALES & ADVERTISING

Sadeek Varacchia

Sales Manager
e: sadeek.varacchia@lafferty.com
t: +44 (0)20 3008 8420

Arnaud Morell-Coll

Advertising Manager
e: arnaud.morell-coll@lafferty.com
t: +44 (0)20 3008 8424

PRODUCTION

Tom Brown

Sub-editor
e: tom.brown@lafferty.com
t: +44 (0)20 3008 5269

Martin Spencer

Design & Technology Manager
e: martin.spencer@lafferty.com
t: +44 (0)20 3008 8419

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LETTER FROM THE EDITOR

Dear Readers,

This second issue of *Lafferty Retail Banking Insider* covers a wide range of geographies, yet highlights some points that are common to retail banks no matter where they operate.

Boardrooms around the world espouse the benefits of cross-selling to the customer base and have done so for many years. The lead article of this issue warns of the disconnection that can occur between the boardroom and the sales force, and how that sales and customer service culture can be one of the most valuable elements of a retail bank's make-up – not least because it's very difficult for competitors to replicate.

Many of the topics addressed in the interview on page 4 with Louis von Zeuner, Absa's group executive director for retail banking, will be familiar to retail bankers everywhere, despite some of the unique challenges posed by the South African market. Indeed, the South Africans follow many others before them in tensely awaiting the outcome of a competition commission investigation into banking charges.

The feature on page 6, which examines the recent trend of investment flows from the East to the West in retail banking, shows that there are some issues out there that are not familiar in all corners of the globe. Indeed, the piece notes that Chinese banks are investing internationally – in South Africa's Standard Bank, for example – as a means of gaining insights from executives in more developed markets. It will be interesting to see whether the fallout from the global credit crunch feeds this trend by continuing to weaken the financial position of Western banks, or eventually catches up with East Asian banks in the same way it has done with others.

On the topic of credit difficulties – which are naturally at the top of the agenda for many retail bankers worldwide – the article on page 12 looks at the implications of the Basel II capital adequacy rules in various constituencies, and also at whether these rules would have made any difference to the current credit environment had they been implemented earlier.

Given the significant role played by mortgages in the credit crunch, this issue's Databank highlights mortgage outstandings and indebtedness levels in three developing regions: Eastern Europe, Latin America and Asia-Pacific. The data underlines the potential of markets such as Brazil, Russia, India, China and Mexico, where the level of outstandings and indebtedness compare favourably.

Finally, I would like to take this opportunity to wish our readers a very enjoyable festive season and a happy New Year.



Olann Kerrison

Editor
e: olann.kerrison@lafferty.com
t: +44 (0)20 3008 8417

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"In banks where the leaders have a fear of selling, you will find that the front line is indeed pushing products down the customer's throat because nobody is helping them learn and master the skills needed to be successful sales professionals," says Lockhart.

The perception that a bank is pushing sales naturally damages its reputation, and Kitay says that banks have become more sophisticated and softened their approach. Instead of focusing on the products, bank employees now generally focus on the customer and try to identify their needs.

"When you focus on selling customers what they need, you will always sell products," says Lockhart. She adds that it is important to have incentives: "It is critical for sales staff to receive rewards and recognition for achieving success. It is [also] just as critical for the service staff to receive reward and recognition for their involvement in the sales process."

A BBC undercover report on Barclays' selling practices in the UK earlier this year drew attention to bonuses, and claimed that the £10 (\$20.60) bonus for each add-on product sold resulted in the staff pushing products on the customer. However, it is important to reward the right kind of behaviour. In Cohen Brown Management Group's work with Bank of New Zealand (BNZ), emphasis was placed on monitoring sales staff and assessing their contributions to sales, call quality and the customer's view of the experience, rather than focusing on sales figures alone. At BNZ, which has around 6,000 employees in 181 outlets, the sales team's on-target earnings are made up of 80 percent base pay, with 20 percent incentive-based.

Susan Basile, the general manager of direct sales and services at BNZ, says: "There was an awkward relationship with the branches, with too much [staff] turnover and not enough quality. This resulted in unsatisfactory interactions and low morale." Now the potential of the 10,000 calls the bank receives every day is being realised, with the call centre currently bringing in 35 percent of the bank's retail business.

Technology has an increasingly-dominant position in how banks identify customers' needs and where cross-selling opportunities lie. For example, Spanish bank Santander operates its branches according to what it refers to as the 'Da Vinci' model, whereby customers are greeted at the entrance and are directed to the appropriate area of the branch in a 'warm handover'. Once the customer is being dealt with, Santander's computer software allows the staff to see how many products the customer has and provides alerts for sales opportunities.

Using technology, however, does not necessarily increase revenues. Sam Gragg, vice president of marketing for customer management solutions at Teradata, says that having blind faith in technology will result in unrealistic expectations. "You could have a customer strategy on paper with some

With the increasing use of technology, Lockhart says that a major change that she has seen in her consultations with banks is that they need to be advised on the various solutions. She believes that the focus on technology means that banks could lose sight of personal interaction with their customers. "It's finding the balance between the human touch and the technology touch," Lockhart adds.

The human touch is something that has been forgotten, according to John McKean, author of *Customers Are People – The Human Touch*. He writes that when buying a product, 70 percent of the decision is based on how the customer is treated, with only 30 percent of the decision being based on the product itself. This is significant, he claims, when you consider that only 10 percent of resources are invested in how 'humanly'

'Banks that are successful at beating their competitors year after year are banks that approach sales improvement from the human perspective'

Linda Lockhart, Cohen Brown Management Group

fabulous tools to support it, but if your systems aren't correctly put in place, or your executives are saying things one way but not reinforcing it with their own actions, then they will not deliver the true value," he says.

Gragg notes that back-end analytics of customer relationship management (CRM) technology is increasingly being used at the front-end in call centres and branches. The analytics can now be used in real time, so that if a customer tells a bank employee they have a change in their circumstances – such as losing their job – the bank is able to make changes immediately to the product portfolio that would be offered to that customer.

Teradata also uses analytics and data-warehousing technology for marketing campaigns that are linked to a single source on the customer's profile and spending patterns. Israel's Bank Leumi and Taiwan's Chinatrust Commercial Bank have also taken advantage of this kind of event-based marketing programme.

customers are treated. He adds that CRM initiatives have often focused on the relationship, but what customers really want is to be treated as human beings. He says that this 'human touch' approach typifies how organisations should be dealing with their customers.

Lockhart also says that it is important for banks to remember the personal element if they want to stay ahead, because their competitors can easily copy other successful techniques that they use. "The only thing competitors cannot copy and replicate is an organisation's sales and service culture. Banks that are successful at beating their competitors year after year are banks that approach sales improvement from the human perspective," says Lockhart.

While improvements in technology have meant that banks are more sophisticated in identifying the needs of customers and opportunities for cross-selling, they are still seeking the perfect way to maintain the balance between generating sales and keeping their customers happy. ●

Playing ball with Barclays

Competition among South Africa's Big Four banks is intense as they seek to tap into the country's large unbanked sector. Absa, a member of Barclays Group since July 2005, considers itself to be the strongest retail bank in the market. Group executive director for retail banking Louis von Zeuner speaks to **Jane Cooper**

How does Absa distinguish itself from the rest of the Big Four in South Africa?

I think Absa is currently considered to be the strongest retail bank in the market, with Standard, First National Bank and Nedbank Group making up the rest of the Big Four. Standard is much more of an international bank, they have a much bigger wholesale and commercial banking operation, as do the other banks. Absa is predominantly a retail bank, whereas you would find more of a balance in the other banks. So we distinguish ourselves with our strong retail franchise.

I would distinguish Absa by its retail franchise and by the size of our customer base, which is about 9 million. The retail business currently accounts for around 50 percent or more of the total [revenue] of the Absa Group. However, going forward I would like to see that balance coming down, with the commercial [side] playing a greater part. That is an objective that we would like to achieve by 2010.

However, looking back to the reasons for us doing the Barclays transaction, we have said all along that we want to have a better spread in our business and have a healthier mix between the retail, commercial and wholesale areas. The benefit of Barclays, and the strength of Barclays Capital, is going to help Absa achieve a more balanced portfolio.

Do you have any concerns about the competition commission's investigation into banking charges?

Yes, I definitely do. I think the problem is that there is such a lot happening in the competition environment, whether it is in the Office of Fair Trading in the

UK or the European Union. I think that the competition authorities have quite a lot of influence over one another. However, if you are asking whether the banks are guilty of anything in the competition space, we have argued in our presentation to the competition authorities that we believe we did not contravene any of the competition acts.

What one must understand is that there are certain areas where, for instance, because of the existence of interchange and joint payments etc., there are certainly some engagements between banks, but it is definitely not price-fixing. I think one should be mindful of the fact that a lot of financial players in South Africa are not part of the payments

'I don't think anyone can be relaxed about the outcome of a competition investigation'

system. We have no problem as a bank in allowing non-banks into the payments system, but that is not something that we have the power to decide on; that is governed by the central bank.

As long as the banks uphold and maintain a service standard, there will be [interaction] amongst the banks. If you issue a cheque from Standard Bank to an Absa customer today, you surely want to know that there is a clear procedure of how there will be an exchange of value.

What I am comfortable about is that banks do not meet and set prices. However, given the fact that there is a huge uproar and a focus on the rights of the consumer, I don't think anyone



Louis von Zeuner, Absa

can be relaxed about the outcome of a competition investigation. One never knows the angle that the authorities are taking their arguments from.

What are Absa's expansion plans for the rest of Africa, and further afield?

In the context of the Barclays transaction, Absa is currently looking at cooperation in Africa, and not necessarily activities outside of Africa – that would be the responsibility of the broader Barclays Group. Something we would definitely not consider is the approach of Standard Bank in Argentina, for example.

Once there has been a consolidation of the Barclays businesses in South Africa into Absa and it has settled down, we will then move into Africa. Our approach will be to align the Absa Africa operations with those of Barclays. For instance, in the three African operations that we have [Angola, Mozambique and Tanzania], several South African expatriates have been deployed into those businesses. Barclays has a different philosophy and their approach is to use local talent.

Obviously there are different covenants, rules and issues of control, and we want to align them first, which is a process that is currently underway and probably quite advanced. Once that is done, we will go into the first operation in Tanzania, where both Barclays and Absa – through its majority stake in the National Bank of Commerce – have a presence. We will then negotiate a transaction to consolidate the two operations.

Absa is not 100-percent owned by Barclays and there is a strong contingent of minority shareholders. Absa also has an independent board and so when we get to the point where there is agreement among the parties on how the integration of Barclays and the National Bank of Commerce will be conducted, that will be put to the Absa board for a decision. But that will be a decision in which Barclays will not have voting power and we will make sure that minorities and our shareholders are happy with the transaction. It is therefore not a transaction that will be done for the sake of doing a transaction in Africa. There will be proper due diligence and proper price negotiations to ensure that there is value in a transaction of that nature. We hope to have finality on Tanzania in Q1 or Q2 2008 and once concluded, we will decide on an approach for the rest of Africa.

I think what is important is that we understand the local market, and we also know that there are a lot of similarities across the African market as a whole; but we are definitely not blinded and naïve about possible risks. We will be dealing with this very sensitively and cautiously to ensure that we can add value by our involvement.

Our overall strategy is clear: we want to be the pre-eminent bank in Africa and the sub-Saharan representation of Barclays in Africa. This will not be done on the basis of Barclays and Absa only, it will be a shareholder matter, it will be a board matter, and it will be based on sound financial principles.

In five years time, how important will mobile distribution be in South Africa?

All the major banks in South Africa have mobile phone banking offerings, but the take-up is still quite low. At Absa, what is quite popular at the moment is our 'NotifyMe' proposition. As a customer you can choose a limit and then have the option of being advised by phone if there are any transactions in your account in excess of that limit. People have taken up that offering at quite a rapid pace as they are becoming ever more aware of IT security issues. They see this as a security

mechanism for staying in touch with their bank account. Around 20 to 30 percent of Absa's customers will use this mechanism in some way.

If you look at mobile phone banking, numbers are rather low. We are heading for about 400,000 mobile phone banking customers, which would give us the lion's share of the market at around 25 percent. But transactional activities are rather low on that facility; the real peer-to-peer offering of transferring money hasn't really taken off. I think that is because it is something that consumers are still sceptical about and are cautious from a security perspective. I have no doubt that we will see it picking up quite substantially over time, and I believe that

‘[Telcos] are formidable players and, given that they have access to more information on their customers, could easily become big competitors’

we are well positioned by having the basic propositions in place to address this area going forward.

Do you have any concerns about the competition from telcos in South Africa?

I would not say that I am not concerned. In South Africa there are four [telcos] that are active in the market: Virgin Mobile, Cell C, Vodacom and MTN. They have large customer bases that are bigger than the banks and I think that they have equally good – if not better – customer information. They also have the added value that they can track the location of their customers with their mobiles. I would definitely keep a cautious eye on what the developments are in the mobile space. Thus far the mobile companies have not expressed an interest to register themselves as banks. Currently the payments system is only utilised by registered banks, so much of the activity of the cellular network operators is done either in partnership or joint ventures with financial institutions. Having said that, I would not rule out there being further developments in that end of the market, with a [telco] choosing to begin operating as a financial services player rather than in partnership with a

bank. They are formidable players and, given that they have access to more information on their customers, could easily become big competitors. But for now, with mobile phone banking in its infancy, most of the activities are done in partnership and I cannot see that would necessarily change in the near future.

What effect have increases in interest rates had on retail banking in South Africa?

It must be remembered that retail banking and the consumer activity in South Africa has come off the back of pretty favourable conditions in the last three years. In July 2006, the South African consumer, for the first time

in four years, was getting exposed to interest rate increases. Fortunately, policy at the South African Reserve Bank level has changed to the extent that interest rate increases are now done in an incremental way, instead of shock jumps of 100 or 125 [basis] points, as has been done previously. So the consumer had the opportunity to grow with the changing markets.

However, our view was that interest increases of about 300 [basis] points in total are possibly what the consumer can absorb. We have gone over that – we have been at the level of 400 or 450 [basis] points, which is alarming in terms of the health of the consumer portfolio. It is obviously the case that the central bank has very tight inflation targets and – if it needs to – will [slow] the economy by curtailing the limit of credit growth. I think banks in South Africa now feel the impact of interest rate increases that has gone beyond our planning. Therefore retail banking in South Africa in 2008 will be extremely tough on the back of changing conditions that influence the consumer. I think it will be a true test to see whose credit systems, technology, automation, processes and collection capabilities are best at weathering the storm of the down cycle. ●

Chinese banks look to Western expansion

Recent mergers and acquisitions by East Asian financial institutions could signal a wave of investment in the West that has not been witnessed since the rapid expansion of Japanese banks in the 1980s. **Jane Cooper** examines this latest trend and what it could mean for the status quo

The flow of investment by retail banking institutions has historically moved from the West to the East, but a more difficult operating environment in the former combined with sustained growth in the latter means that this is changing. China and Singapore stand out for snapping up small stakes in banks further afield than their usual expansion ground of Asia.

In October, Industrial and Commercial Bank of China (ICBC) became the largest shareholder of South Africa's Standard Bank when it bought a 20 percent stake in a ZAR 36.7 billion (\$5.4 billion) deal.

The bank, China's largest by assets, is also said to have plans to set up branches in Sydney, Dubai and Doha. ICBC's chairman reportedly said recently that acquisitions would be a major tool for expansion, allowing them to avoid the hurdles of setting up new branches and giving them more influence in the local market.

Bank of China (BOC) has established a branch network outside Asia, but the

Toporowski adds that other East Asian countries would not be able to buy stakes in Western banks unless they received some government backing as they have stricter capital controls. "It is unlikely that the US or the UK would allow one of its banks to be taken over by a bank from Thailand, Taiwan or Korea without having a reciprocal right to take over a local bank there. In the case of China and Singapore, the reciprocal rights issue does not arise simply because they have so much money, so many dollars, so many reserves," he says.

Temasek, the investment arm of the Singaporean government, has gradually increased its stake in Standard Chartered to reach more than 17 percent, which observers say was purely a financial investment of its foreign exchange reserves rather than part of any hostile intention to launch a takeover.

Chinese banks, however, are buying stakes in Western banks for more reasons than capital management. Banks such as ICBC, BOC and China Construction Bank (CCB) are looking to expand further afield and enter

policy, which was expressed by President Hu Jintao at the Seventeenth National Congress of the Communist Party of China. "Chinese firms were explicitly encouraged to go abroad," says Huainan Zhao, a finance professor at the Cass Business School in London.

He explains that Chinese banks are buying stakes in banks abroad to gain international management expertise. "In my opinion, [the issue of] Chinese banks investing in Western countries is not driven by profit seeking or diversification concerns, [but] rather by acquiring insights or skill from good Western practices. The Chinese 'open door' policy in the past decade has attracted many foreign banks to take minority stakes in Chinese banks. It was very beneficial to China as it brings Western know-how onto the boards of Chinese banks. However, this way may be rather conservative as the Western banks can choose what to bring and what not to bring to the Chinese board."

Zhao adds that the experience the Chinese gain through 'passive learning' is limited because foreign bankers are only sharing information with them in the context of the Chinese market. If Chinese banks are gaining their expertise by allowing foreign banks to come into China, he adds, they risk losing their best customers to the foreign banks.

"In contrast, if Chinese banks take minority stakes in Western banks, Chinese bankers can then sit on the board and observe and learn their front-line cutting edge operations. This kind of 'active learning' can be unlimited, so with the expansion of their strong business in China, Chinese banks are no longer satisfied with passive learning," says Zhao.

After the first step of passive learning and the second of active learning, Zhao thinks that China's banks will be able to expand further to become more internationally competitive.

However, gaining expertise through active learning comes at a price. Some purchases have been risky, says Zhao.

'[The issue of] Chinese banks investing in Western countries is not driven by profit seeking or diversification concerns, [but] rather by acquiring insights or skill from good Western practices'

Huainan Zhao, Cass Business School

mergers and acquisitions show a new trend for East Asian financial institutions. "China and Singapore stand out by having large accumulations of foreign currency in reserves, and buying foreign banks is a way of using those reserves in some way," says Jan Toporowski of the economics department at the School of Oriental and African Studies, University of London.

into international partnerships. *The Financial Times* reported in November that these three Chinese banks had approached Temasek about buying its stake in Standard Chartered, a bank that is attractive because of the spread of its international operations.

One reason China's banks are looking to expand outside Asia is the government's

For example, when Temasek and China Development Bank (CDB) bought a 5 percent share in Barclays in July this year – while Barclays was recasting its bid for ABN Amro – the share price was £7.20 (\$14.80). However, by the end of November, Barclays share price had dropped to £5.40 (\$11.10).

Zhao says that CDB did not buy the stake in Barclays purely as a financial investment: “They could easily stay at home and make money, but their ambition is to be competitive and active learning is a short cut to achieve this goal,” says Zhao. “They know they may pay a price to learn this.”

However, not everyone agrees that China needs to buy stakes in Western banks to learn good banking practices. Simon Gleave, head of financial services for KPMG in China and Hong Kong, believes that Chinese banks are learning more from their foreign partners in China, citing CCB’s relationship with Bank of America: “While Chinese banks are taking small stakes abroad, that is actually more about how they can act globally. They are not transferring the skills that they acquire offshore back. They are looking to expand their global presence, but this is still on a much smaller scale compared to the investments of the foreign banks in China,” says Gleave.

Retail banking

Retail banking in China is still basic, with most of the revenue coming from taking deposits and lending at a higher rate of interest. Gleave says the mass market of retail banking in China is made up of hundreds of millions of accounts that have very small deposits. He describes the average branch as having long queues of people waiting to take cash out, pay it in or pay their bills.

However, mortgage and credit cards businesses are expanding rapidly and Chinese banks are competing with international banks that have incorporated locally. Domestic banks, on the other hand, lack risk management experience. Toporowski explains that there is no standardised credit rating system in China: “Loans are allocated much more by personal knowledge of the borrower.”

Paddy Ran, an analyst at Nomura International in Hong Kong, says that Chinese banks also need to learn about corporate governance as well as “simple asset liability, pricing, negotiation, products, the design of products, and maybe the qualification of relationship managers” from their foreign partners. “They need to learn how to operate their banks in an open market,” Ran adds.

Since banks in China have traditionally been controlled by the government, they have much less experience in operating in a commercial sense. There are also concerns about the stability of Chinese banks, with some referring to the past when banks were propped up by the government if they ran into trouble.

Zhao believes that this issue is not a problem: “Five years ago, if a Chinese bank was faced with big debts and bad loans then the government supported them financially, but now the top banks are listed companies and have sufficient capital to run their own business. If they are short of money now, they do not need to go to the government as they can just issue more shares in the market.” However, there are some that doubt the transparency and quality of accounting, and suspect that Chinese banks are rife with non-performing loans. “There is a whole controversy as to whether the assets of Chinese banks are bad debts,” says Toporowski.

Chinese ambition

China is much more ambitious than its East Asian counterparts when it comes to buying stakes in foreign banks, with observers comparing China’s rise to that of Japan in the 1980s. During that decade, Japan’s banks aggressively expanded in the West, taking advantage of a booming stock market and rising export business. In 1988, the top-ten largest global banking organisations, based on total assets, were Japanese. By the 1990s, however, there were sharp declines in the stock market and real-estate prices, resulting in a substantial amount of non-performing loans for the banks.

Once the speculative bubble had burst, the drop in stock prices meant that Japanese banks suffered a decline in

their Tier 2 capital. This capital level fell below the requirements for the Basel Convergence Accord’s capital adequacy regulations. Since banks that do not operate globally have lower capital adequacy requirements, the Japanese banks were forced to retreat from their international partnerships.

It is too early to say whether China will follow a similar path as most of the stakes taken in Western banks are relatively small. In the long term, China has the potential to increase its share of the international banking market, but for now Zhao says: “I do not think they are planning for the next big step.” He explains they need to learn to become more competitive first and that they are taking a conservative approach. “They need to learn to walk before they can run,” adds Zhao

If Chinese banks were to increase their investments to controlling stakes, this would be subject to political and regulatory obstacles. Toporowski cites the example of Standard Chartered and says that it is a delicate matter as to whether an East Asian financial institution would be allowed to take full control of a Western bank.

“Standard Chartered transferred its registration to London so that it could remain independent,” Toporowski says, referring to Britain’s handover of Hong Kong to China in 1997. “The more likely compromise would probably be to allow a controlling stake of the subsidiaries operating in Hong Kong and China. This is the kind of compromise that would emerge. Much further down the line I could see something like this creating problems for banking and financial systems in the US, but particularly in London where the market is dominated by a small number of very large banks. If they were to be foreign-owned, it could create problems for the managers of the banking system.”

In the near future, however, it does not look like Chinese and Singaporean financial institutions are looking to launch a hostile takeover of a Western bank, and it is too early to say whether the purchases of stakes would be successful. ●

Adopting the challenger ethos

AIB is the largest bank in the Republic of Ireland by market capitalisation. **Ronan McCaughey** takes a look at AIB's position in its home market and also its ambitions on the international front

The success of the AIB Group lies in its ability to do the simple things well, according to Donal Forde, managing director of the business in the Republic of Ireland. After escaping the worst of the credit crunch, Forde says the group is now focusing on expanding its activities in Poland and Eastern Europe: "Overall, it has been a very, very good year. It [has been] dominated by all the discussion about the credit crunch in the last three months, but that will not take away from the fact that we are going to have a very strong 2007," he says.

Forde points out that AIB's Polish subsidiary, Bank Zachodni WBK, is the fifth-largest bank in that market and is currently undergoing an aggressive branch-building programme. "Right now we are opening a new branch in Poland every week, so there is organic expansion going on and we are alert for other opportunities."

Headquartered in Dublin, AIB Group is a major banking and financial services organisation that operates principally in Ireland, the UK, Poland and the US. It employs around 24,000 people in more than 750 offices.

The group operates through four main divisions. AIB Bank (RoI) includes the group's retail and commercial activities in the Republic of Ireland. AIB Bank (GB&NI)

Markets division comprises the global treasury, international, investment banking and corporate banking activities of the group, as well as the Allied Irish America network. The Polish division consists of AIB's 70.5 percent shareholding in Bank Zachodni WBK, the bank formed from the merger of Wielkopolski Bank Kredytowy and Bank Zachodni. Bank Zachodni WBK has more than 400 outlets mainly in the mid-west and south-west of Poland.

AIB also has a presence in US regional banking with a 23.5 percent shareholding in M&T Bank Corporation.

In Ireland, Forde says AIB's main competitor is Bank of Ireland. However, he admits that the market is becoming increasingly competitive due to the presence of Ulster Bank – owned by the Royal Bank of Scotland – and Halifax Ireland, the trading name of Bank of Scotland (Ireland). National Irish Bank, which is owned by Danske Bank Group, is another key competitor. Finally, AIB Group also competes against Irish Life & Permanent.

"We work very hard to make sure we understand the needs of our customers and we know the areas where we have to improve. We have a 200-person product management unit and they are charged with driving product development, product competitiveness and product



work going on to ensure we take work and administration out of branches and free up more of our people [so that they can be] engaged with customers and build relationships with them. The combination of products and relationships is the formula from our perspective," Forde says.

Retail banking accounts for almost 50 percent of the business and AIB Group recognises the need to develop this significant sector. "Retail banking is a very substantial part of our business and we see it as an area where there is a particular opportunity to grow and develop, so it is a critical focus for us. In Poland and the UK, we operate as challengers and aggressive competitors; we try to bring that same ethos to the home market. We try to develop our own proposition and improve it so there is no complacency about our strong position in this market. We are always behaving as a new attacker," comments Forde.

Consumer satisfaction also plays a crucial role in AIB Group's success, notes Forde. In branches this means that tellers remain alert for sales opportunities and when they do occur, they quickly refer them to either retail managers or relationship managers: "The idea is that we try to get to know the person, understand their needs and try and build long-term relationships with them."

To ensure it satisfies customers' needs, Forde says that customers are regularly surveyed at every branch to check they are receiving a high quality service. This commitment to receiving customer feedback is also a feature of employees' performance-related pay and every effort is made to ensure this process is maintained and developed.

'In Poland and the UK, we operate as challengers and aggressive competitors; we try to bring that same ethos to the home market'

Donal Forde, AIB Group

division provides retail and commercial banking services for customers in the UK, operating under the name Allied Irish Bank (GB) in the UK and First Trust Bank in Northern Ireland. The AIB Capital

innovation. The combination of all of that certainly makes sure we are well-positioned from a product point of view. In terms of then developing that relationship model, there is a lot of

Customer segmentation is also a useful tool for AIB group and Forde says that this involves tailoring the bank's retail products to meet the needs of a variety of different groups, such as young people and the elderly, in addition to long-term and short-term savers.

Underpinning AIB Group's retail banking strategy is a multi-channel approach involving a branch network, telephone and online banking.

AIB Bank (RoI) has 187 branches, 84 outlets, four business centres and in excess of 750 ATMs. It has an agency agreement with An Post, the national post office network, which enables AIB personal and business customers to conduct basic transactions at more than 1,000 post office locations nationwide.

Through its branch network the division provides a range of savings and investment products, loans and overdrafts, home mortgages, payment services and foreign exchange facilities. It also issues Visa and MasterCard credit cards.

Based on data from the Lafferty Group's *World Cards Intelligence* database, AIB vies with rival Bank of Ireland for the top spot amongst credit cards issuers in Ireland, using its strong market presence to bolster its credit cards business.

Internet banking is increasingly becoming a key channel for AIB Group and since it launched its online service in November 1997, 500,000 customers have regularly used the service, making more than one million transactions every month. But despite this success, Forde remains cautious about a shift towards mobile phone banking as a new channel for connecting with customers: "Mobile phone banking really does not seem to be capturing the public's imagination just yet. We have been piloting and testing it, but it is limited as a banking channel and maybe this is because of the growing acceptance and routine [role] that online banking now plays for people. A lot of young people will turn to online banking rather than do it on their [mobile] phone, although that may change," he says.

Since developing relationships with customers is a core part of AIB's offering, Forde explains that the group seeks to recruit staff with a good service ethic: "Once they come with that [service ethic], we can build the knowledge that they need. We also recruit specialists, where appropriate, for technical areas and have an overlay of graduate recruitment."

AIB Group's principal objectives involve delivering a distinctive value proposition to its customers and maintaining and enhancing its position as a major financial services company in Ireland. In terms of financial performance, this means maintaining a tangible return on equity of above 20 percent per annum. The group also aims to be in the top quartile for growth in adjusted earnings per share performance in the FTSE European Banks Index.

AIB Group	
Return on Equity	23.8 percent
Cost / income ratio	51.2 percent
HQ	Dublin
Staff	24,000
Offices	750+
Assets	\$260.5 billion
<i>Data based on the latest unaudited interim results up until June 30 2007</i>	

According to AIB Group's unaudited interim results up until 30 June 2007, the return on equity was 23.8 percent and it generated an operating profit of €1.1 billion (\$1.6 billion). Based on the group's 2006 annual report, AIB Bank (RoI) generated growth in profit before tax of 24 percent, with loans and deposits increasing by 32 percent and 20 percent respectively compared to year-end 2005. The strong operating performance was reflected in a further improvement in the cost of income ratio to 49.6 percent, compared with 51.3 percent in 2005.

Looking ahead, Forde says AIB Group intends to grow its market share across all its lines and this is reflected in its aggressive branch-building programme in Poland. As for other markets, he says: "In Ireland, there is a big focus on leveraging the strong

franchise that we have and constantly growing market share across all the retail products. This is the same for the UK where we are a niche player and a business banking proposition only, but we are very keen to expand that into our chosen [retail] segments."

The group was also fortunate enough to escape being directly affected by the credit crunch, given that customer deposits accounted for 47 percent of funding at the bank in the first half of the year, with the remainder consisting of wholesale and interbank funding. Forde explains: "AIB entered this period of market dislocation in a good position as we had accessed a considerable amount of wholesale funding earlier in the year. We have had no asset write-downs or anything like that, but like everybody else, it was clear to us that funding was becoming a scarcer commodity going forward, the price of money was going up and there was a re-pricing going on across the deposits and liabilities. We give thought as to how our business model could best accommodate the re-pricing and how we could best refine our product set and pricing to reflect that to customers, but hopefully without doing them undue damage either. A great deal of effort has been made to make sure that we responded appropriately from the bank's perspective to preserve our profitability, but also to minimise the impact on our customers."

Commenting on the challenges facing the group in the years ahead, Forde stresses that like any retailer, retail banking involves staying in touch with customers and ensuring products match consumers' needs. In his opinion, AIB Group needs to be seen to be continually striving to meet customers' needs more effectively, because by setting a high bar for performance then business can be sustained. "It's about doing the simple things right. I do not think there are any real breakthroughs and [from] our experiences in the last ten to 15 years, breakthroughs just do not tend to happen. If anything, new services become an additional dimension. Ultimately, it's about doing everything a little better. Success is more than about any silver bullets," he concludes. ●

Australian online banking strategies under fire

Many Australian banks are failing to harness the internet as a customer acquisition tool, claims Andrew Willink, executive chairman of Sydney-based online comparison website RateCity.

Willink argues that banks erect a series of hurdles that lead to a disconnection with customers and lost revenue opportunities. Instead of one straight-through process, these barriers require customers to download documents and fax them to the bank, and often a branch visit is necessary to complete the transaction.

"Large Australian banks such as Commonwealth Bank, Westpac and ANZ Bank just use the internet as a brochure to explain about a product rather than allowing for a complete acquisition. Their online application funnels are not conducive to a successful application and it shows that the internet is not a priority," explains Willink, adding that few of Australia's 120 credit unions employ online strategies either.

Ineffective use of the internet as a customer acquisition tool is costing financial institutions hundreds of dollars per customer, warns Willink. He estimates that on average, Australian banks spend between A\$1,500 (\$1,324) and \$2,000 (\$1,765) to acquire a new customer, but he says an online strategy could reduce this to approximately A\$500 (\$441).

Compared to their Australian counterparts, international banks operating in Australia – such as Citi, Rabobank and ING – have been more successful in delivering online customer acquisition strategies, notes Willink.

A total of 75 percent of online searches by customers are conducted via Google, Willink says, and he believes that international banks recognise this and have effectively deployed search engine marketing to engage and attract consumers.

Comparing the efforts of RateCity with the UK financial comparison website

Moneysupermarket.com, Willink says that banks need to build consumer trust in using online systems. In the future, he predicts that this may involve making online banking accessible to customers in a non-traditional banking environment, such as a shopping centre. "It will be a journey for all sides, but I think it will take 12 to 18 months before the large Australian banks implement any major changes," Willink says.

Responding to the criticism, a spokesman from Commonwealth Bank says that the bank continually invests money to make its online services reliable and secure. He adds that the bank has changed its public website and online banking service, as well as offering enhanced security to more than 500,000 customers.

'It will take 12 to 18 months before the large banks implement any major changes'

Andrew Willink, RateCity

The spokesman says: "We believe that the future challenges will focus on the ongoing development of online [services], while at the same time ensuring we have a stable platform for our customers. We have nearly one million customers accessing our website during our peak [times] so we need to ensure that we can continue to provide a first-class service. One of the next challenges is the closer integration of all our channels, whether this is online, over the phone or at a branch."

Jane Counsel, Westpac senior media relations manager for stakeholder communications, stresses that online technology is an integral part of its distribution strategy for engaging with customers. "Online continues to grow in relevance, with 20 percent growth in transaction volumes per year. Not only is the number of customers utilising online banking increasing, but so is the number and nature of transactions performed using our online services," she adds.

"As long as our customers continue to choose this channel, we see it as a critical part of our future strategy. We believe it has a vast potential, especially as we begin to transition from a transaction-based to a more interactive [platform], as well as online self- or assisted-service," Counsel says.

As the pace of technology accelerates, Counsel believes that one opportunity facing Westpac is linking the relevance of online banking with interactive social networking opportunities, particularly among young people.

Katherine Rellos, media relations manager at ANZ, says the bank recognises that continual investment in its website offers a considerable competitive advantage. "In general, internet banking continues to increase in popularity as a convenient banking channel. Transaction volumes have been growing at around 30 percent per year, or more than 70 million per year, since ANZ introduced internet banking ten years ago. We are continually conducting research to ensure that we are meeting customer needs and testing new creative offers and segments to help drive online customer acquisition. In the credit cards space alone, about 30 to 40 percent of new cards are acquired via the online channel.

"In 2006, ANZ introduced a new information technology platform that provides us with a foundation to enhance internet banking and security over the medium term. We believe that security is something we can differentiate ourselves on competitively," Rellos says.

This focus on security has led to the development of FraudLink BillPay, an enhanced fraud detection system that has cut ANZ's internet banking fraud losses by 40 percent, says Rellos.

Rellos adds that ANZ has one of the highest online advertising presences of Australia's financial institutions and is currently piloting a range of online enhancements and security features that will be announced in coming months. ●

Interest in Deutsche Postbank acquisition flares

Deutsche Postbank, which has the largest retail customer base in Germany, looks set to be sold in 2008 once deregulation of the country's postal market is completed. In a recent interview with a German newspaper, Klaus Zumwinkel, chairman of Deutsche Post World Net, revealed that several German and foreign banks have already expressed an interest.

According to a Citi research paper from November 2007, Zumwinkel said Postbank's future may be reviewed next year. If this review goes ahead, it will coincide with possible changes in the management team at Deutsche Post, opening up the possibility that a new leadership team may have different strategic options to the current group.

When asked to confirm the chairman's comments, a spokesperson from Deutsche Post World Net says Postbank is currently not for sale, but acknowledges that "Postbank is an attractive business and other companies will show an interest in it".

Deutsche Bank chairman Josef Ackermann also declined to rule out a possible acquisition of Postbank, fuelling further M&A speculation. Speaking at a conference in Berlin in November 2007, he said: "I will not rule anything out. We will only talk about future decisions when the time comes."

Klaus-Peter Müller, chairman of Commerzbank and president of the Association of German Banks, has also confirmed the institution's interest in Postbank. He informed journalists in November 2007: "I will repeat what I have always said: Yes, we are interested."

Germany's three-pillar banking system plays a significant role in the status of consolidation in the market. Commercial financial institutions constitute the first pillar and consist of larger banks, regional banks and foreign branches. The second pillar includes savings banks and their head institutes, the land banks, which are public institutions ultimately owned

by the federal or state government. Cooperative financial institutions make up the third pillar.

Of the first-pillar institutions, Deutsche Bank became Germany's leading bank in 2006, after its assets reached €1.1trillion (\$1.62 trillion). Commerzbank moved firmly into second place and Dresdner Bank held third spot, completing the familiar picture of earlier decades with the three big Frankfurt banks heading the rankings.

Based on the 2006 figures, the top-20 banks included seven land banks, with Postbank ranked thirteenth. Acquiring Postbank could therefore be an attractive proposition, for as Mueller pointed out to a group of academics in January 2007, the five largest banks in Germany have a combined market share of only 22 percent

'If Deutsche Post does sell Postbank next year, it will be ground-breaking for the whole German market'

– the lowest in Europe. In countries such as Belgium, the Netherlands or Finland, Mueller said the five biggest financial institutions have more than 80 percent of their domestic market.

The Citi research paper notes that Postbank's focus on growth and operating leverage has also been impressive. It says: "From an M&A perspective, Postbank's large and under-penetrated customer base may present an attractive opportunity for German and non-German acquirers." Valued at an estimated €9.4 billion (\$13.9 billion), with 14.5m customers and total assets of €194 billion (\$288 billion), it is clear why Postbank is an attractive business.

Speaking to *Lafferty Cards Insider*, a spokesman from financial institution SEB insists that Postbank will be a takeover candidate: "If Deutsche Post does sell next year, it will be ground-breaking for the whole German market."

Since Postbank seems likely to be sold in 2008, this raises the possibility of further M&A activity in German retail banking.

Professor Andre Güttler, from Goethe University, thinks this however is unlikely and is sceptical that the mortgage crisis will have any significant impact: "I don't expect the mortgage crisis to be a major trigger towards consolidation. However, weak players, due to the sub-prime crisis or other triggers, will be [the] first takeover candidates in future." Nevertheless, he warns that: "If further Landesbanks struggle, this would yield faster consolidations in this pillar that otherwise would take more time."

Commenting on the prospect of Postbank being acquired by Deutsche Bank or Commerzbank, Güttler says: "The benefits of a possible merger are Postbank's broad branch network and its well-known retail brand. It has a clear focus on retail banking and transaction banking." He also believes

the acquisition of state shares in the land bank Berlin Holding (LBBH) by the German Savings Banks Association in June 2007 will not necessarily signal a wave of M&A activity.

Despite the presence of international institutions such as Citi and ING DiBa, Güttler says the stiff competition provided by the three-pillar system will diminish the probability of further acquisitions.

During a World Bank meeting in September 2006, Heinrich Haasis, president of the German Savings Banks Association (DSGV), questioned the value of mergers, arguing that they reduce competition and risk the systemic stability of the banking sector. Citing the fact that there are 5.5 branches in Germany for every 10,000 inhabitants, compared with an average 5.4 in the eurozone, Haasis said that intense competition has actually benefited German customers in the form of extremely moderate prices.

While the future acquirer of Postbank remains unclear, all the signals suggest that the bank will be sold in 2008. ●

Basel II may not be the knight in shining armour

Basel II capital adequacy rules are being implemented at a time of turmoil in financial markets. Doubts persist as to the level of protection the regime can provide, but some believe it could hamper US banks in relation to their European rivals. **Ronan McCaughey reports**

As problems in the financial markets continue to worsen, many analysts believe Basel II is incapable of reducing volatility – and may even exasperate it in future.

Greg Lyons, a partner at US-law firm Goodwin Procter, says: "I think [it is] a bit naïve to believe that any risk model, no matter how sophisticated, can completely guard against risk, particularly when there are so many non-bank players – such as hedge funds and private equity funds – acting as financial intermediaries in the marketplace.

"Given that a Basel III bank's capital charges will now be based largely on internal experience, there is some concern that the new rules will exacerbate positive and negative market swings. In other words, strong market conditions may result in less capital being required for a certain loan, which may encourage the bank to lend aggressively. The inverse may be true in weak market conditions. As with many aspects of Basel II, we will have to see how it rolls out before we make judgements on this issue."

Basel II is a global framework that aligns capital requirements more closely with the major risks faced by a bank. This includes credit, operational and market risk. Following on from the 1988 original bank capital accord (Basel I), Basel II seeks to improve the consistency of capital regulations, make capital risk more sensitive and promote enhanced risk-management practices among large, international financial institutions.

Basel II has three pillars to deliver these goals: minimum capital requirements, supervisory review and market discipline. Reviewing the benefits of the three pillars, Jörgen Holmquist, director general for internal market and services in the European Commission, says that

they provide a consistent framework that enables supervisors to identify portfolios and banks where capital is not commensurate with inherent risk levels.

In comparison, Holmquist explains that Basel I provided no explicit requirement to account for the operational risks embedded in the many services which provide companies with much of their revenues. "Basel I has served us well since 1988, but banking has become too complex to be addressed by its simplistic approach," he adds.

Basel II implementation involves deciding whether a basic, standardised or advanced approach is relevant to a financial institution. Banks that are internationally active or have significant

'Basel I has served us well since 1988, but banking has become too complex to be addressed by its simplistic approach'

**Jörgen Holmquist,
European Commission**

operational risk exposures, such as specialised processing banks, are expected to use a strategy that is more sophisticated than the basic approach.

The standardised approach to operational risk divides a bank's business activities into eight business lines, such as retail banking, corporate finance and asset management. Capital for operational risk in each of these lines is calculated as a percentage of the bank's gross income from that particular line of business.

Under the advanced approach, banks are allowed to use an allocation mechanism to quantify the required capital for operational risk. This is subject to the approval of its host supervisors and the support of its home supervisor.

The progress of Basel II in Europe compared to other markets illustrates the different timelines for its implementation. In Europe, the basic and standardised approaches were rolled out for banks on 1 January 2007, with the advanced approach due to be implemented on 1 January 2008. The US will begin a parallel run of Basel II in 2008, with the accord phased in during 2009, and full implementation by 2012. In Asia-Pacific, Japan introduced Basel II on 1 April 2007 and South Korea is due to enforce it in January 2008. New Zealand is expected to implement the framework in Q1 2008.

In terms of the implications for retail banking, Dutch ING Group says that the mortgage sector will be the main beneficiary of Basel II. A spokeswoman for ING says that subject to regulatory approval, the introduction of Basel II – which has broadly cost the company around €100 million (\$147.8 million) in the last five years – will result in an overall reduction in the minimum required regulatory capital due to the high level of alignment between internal risk management, risk profiling and required minimum capital.

In New Zealand, a spokesman from the country's reserve bank comments that the country's mortgage business will be boosted by Basel II because residential mortgage lending accounts for the bulk of retail lending in New Zealand. Data from *World Cards Intelligence* shows that mortgage lending accounts for 91 percent of all household lending in New Zealand.

He explains: "Basel II [both standardised and modelling approaches] makes capital requirements for mortgages more sensitive to risk, but the overall impact will be hard to disentangle from the effect of other developments in the local market over time."

Commenting on the level of disclosure provided by Basel II, the spokesman adds: "Banks will have to disclose more information on their approach to risk management, and the banks using modelling approaches will have considerably more detail to report on their capital adequacy position. We would expect the disclosure about risk modelling approaches to add to the incentives on banks to improve those models in the future."

In terms of the impact of Basel II on credit cards, the ING spokeswoman says the accord will generally involve higher capital charges.

In regards to overdrafts in current accounts, the spokeswoman says the treatment will depend on whether there is collateral or not. "There is more behavioural information in a current account and that historic data generally indicates a lower probability of default than data from a credit card and so there is less capital charge," she remarks.

Kerstin Liesem from the Association of German Banks notes that the new framework will mean that customers with poor credit ratings who may not have been granted a loan in the past will now probably receive one, but will pay higher rates than customers with average to good credit ratings, who should benefit from the regulations. This is because the internal ratings-based approach (IRBA) for dealing with credit risk under Basel II links a banks' internal risk assessments to capital requirements risk. So banks using the IRBA will have to align more capital for poorly-rated portfolios than for those that are average- to well-rated.

Rob Strand, a senior economist at the American Bankers Association, stresses that Basel II demonstrates the need to move as fast as possible to improve risk management following the credit crisis.

Financial commentator John Plender believes Basel II would have done little to prevent the current credit squeeze because it downgrades the importance of liquidity relative to capital adequacy and gives credit rating agencies an important role in the system. He notes that these are the same agencies whose

reputations have been damaged by the credit crunch.

Plender adds: "Basel II will be very helpful for big banks because the sheer complexity of the regulations, combined with the banks' ability to manage such complexity, will operate like a barrier to entry. Smaller banks will undoubtedly find themselves disadvantaged in the competition stakes."

The impact of Basel II is likely to be keenly monitored in the US, where banking agencies approved the final rule on the accord in November 2007.

Speaking at a bank conference in November 2007, US Federal Reserve board governor Randall Kroszner said

that Basel II has been adopted because it provides a more refined approach than Basel I.

Adam Honoré, senior analyst at US-based research and advisory firm Aite Group, says: "Only the largest banks are moving towards Basel compliance, while regional banks continue to operate with a business-as-usual mentality. The only exceptions are those regional banks that feel they may want to opt into capital accord requirements to avoid adverse selection, or those that receive second-rate credit because they get turned away by top-tier institutions."

Comparing the impact of Basel II in the US and Europe, Lyons says: "For the dozen or so large US banks that must or likely will voluntarily adopt Basel II, it should put them roughly in a position of competitive equality with their European peers. For the 8,500 or so local and regional banks that will not apply Basel II, European competition will likely remain largely irrelevant."

In Lyons' opinion, Basel II will have different implications in the US and Europe. US banks will be subject to a

leverage ratio and prompt corrective action, which may require them to hold more capital than their European competitors. "There is some concern that different capital requirements may place US banks at a competitive disadvantage when competing for business. Moreover, even where the rules are similar, they principally are interpreted by each bank's home country supervisor. The US banking regulators have generally been regarded as among the most conservative of the industrialised nations, which could impair the competitive position of US banking institutions," he adds.

Declan O'Mahony, managing director of German risk management firm Onsite Corporate Services Group, says that in the US, Basel II only applies to internationally-

“There is concern that different capital requirements may place US banks at a competitive disadvantage when competing for business”

Greg Lyons, Goodwin Procter

active banks, but affects all European banks, and approximately 2,500 in Germany alone. "The concern is that if the US doesn't apply the accord to all banks, European and other banks may find the local US market more attractive. Being less regulated allows them to be more creative. Due to the current economic situation in the US, I don't see them expanding the scope anytime soon."

The main challenge facing Basel II is that in an era of complex global financial organisations, standards written in the EU or the US reach beyond national borders and raise many home and host issues, explains Holmquist. "Banks with significant cross-border operations have understandable concerns about the prospect of each national supervisor asking different questions about implementation, demanding different data or taking other actions that increase costs or are inconsistent with the Basel II encouragement of group-wide management."

O'Mahony sums up the mood: "Basel II is good for the financial industry, but it will take several years, perhaps a decade or more, for it to function as intended." ●

Bringing biometrics to the unbanked

Having access to basic financial facilities such as withdrawing money or depositing a cheque is taken for granted in the developed world. In an effort to reach the unbanked population, more banks are shifting from traditional banking strategies and moving towards alternatives such as biometric technology to reach low-income, and in some cases illiterate, communities.

Banco Azteca was the first Mexican bank to target the country's middle and working classes, servicing more than 15 million people who were previously outside the traditional banking system. A wholly-owned subsidiary of Grupo Elektra – a Latin American retailer, consumer finance and banking services company – Banco Azteca began operations with an existing customer base built up from 50 years of retailing at the parent company's stores.

In 2001, Grupo Elektra enlisted the help of biometric technology provider DigitalPersona to deliver financial services to Banco Azteca's customers from low-income communities, without any secure form of identification.

The 'U are U' fingerprint-based system has been a success in low-tech rural Mexico and since its implementation has registered more than eight million customers. According to DigitalPersona, the biometric technology has enabled 75 percent of Banco Azteca customers to establish and maintain their first savings and credit accounts.

Economic opportunities

Juan Arevalo, director of systems at Banco Azteca, believes that without biometric technology, Banco Azteca would not have "been able to open economic advancement opportunities to millions of people who previously lacked a reliable, if any, means of identification and were subject to identity theft".

NCR, one of the largest specialists in technology products for the financial and retail sector, claims to have created

the world's first biometric ATM back in 1999 to reach the unbanked rural communities. Having successfully introduced biometric technology to Latin America, India and South Africa, NCR knows that biometric banking will only work when there is a strong underlying business case.

"One business driver in India is the enhanced security for audit purposes. In India, family members tend to share their card and PIN with each other, so biometrics means that the bank can actually track the transaction back to one person. The strongest business driver for biometrics in emerging markets such as India, though, is the ability to reach out to rural areas where people may not have traditional bank accounts and may not even be able to read and write. Biometrics can be a secure way of giving these underbanked segments of the population financial services that they could not have had otherwise," explains Claire Shufflebotham, senior global marketing manager in the financial solutions division of NCR.

Bringing biometric banking to an estimated 16 million people is not easy, as NCR discovered when it first brought biometric ATMs to South Africa. Locals found a way of breaching security, although new technologies mean this is no longer possible.

"We were hearing cases of people using plastic fingers or even having their fingers chopped off so that criminals could try to access their money. But that's not possible with advanced biometric technology, which use special capacitive technology to verify that it is a real [living] person," adds Shufflebotham.

In May 2007, Andhra Bank introduced two mobile biometric ATMs to reach unbanked customers in rural areas of India. The mobile units, initially deployed to Hyderabad and Secunderabad, utilise fingerprint scanning technology to verify customers. The units are transported to a different location every week under a schedule agreed by the Reserve Bank of India.

Of course, the unbanked population is not limited to developing countries. Figures from the 2006 US Federal Reserve survey on consumer finances show that 10.6 percent of US households did not have a bank account in 2004.

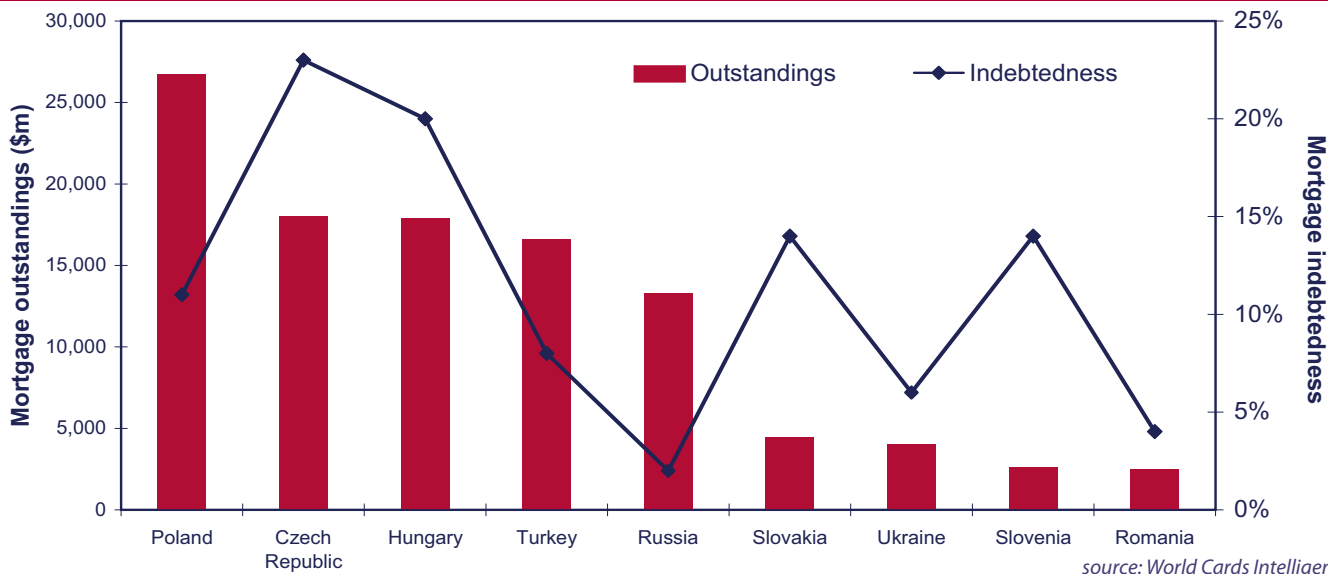
A key issue faced by US banks is the increasing influx of immigrants, especially from Mexico and Latin America. James Ballentine, director of grassroots & community outreach for the American Bankers Association's Center for Housing, Community and Economic Development, explains how US banks are changing their banking strategies. "More banks are recognising that they have to have internal infrastructure, [in this case] Spanish-speaking employees, to reach the sought-after Latino community. Some banks have begun to implement Spanish-speaking human resource departments to cater to them. Any bank can print brochures and translate them into Spanish. Taking the extra step of hiring the right personnel [such as Latino tellers and loan officers] is the internal part that is critically needed to make these efforts a success," he says.

Technology gap

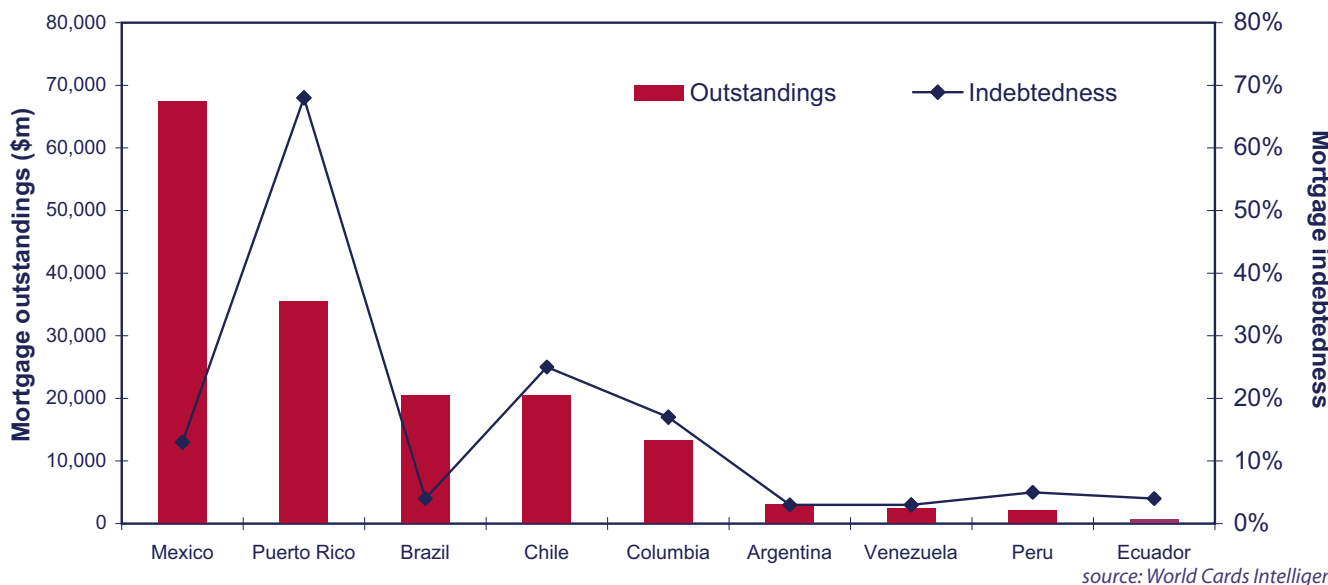
Ballentine is not convinced that "the best approach involves enhanced technology", due to the technology gap that exists among low-income and immigrant communities. Instead, he says that banks prefer to reach the unbanked via existing marketing channels such as television, print advertising and word-of-mouth. He claims that around 20 percent of US households are currently unbanked – an even higher level than that quoted by the US Federal Reserve – and as such notes that there is great potential for banks in this market.

The development of new products and technology means that more banks are adopting alternative strategies to deliver their services to the unbanked. Until a new alternative is introduced to the market, it seems that the implementation of biometric technology is one strategy that has been and will continue to be embraced. ●

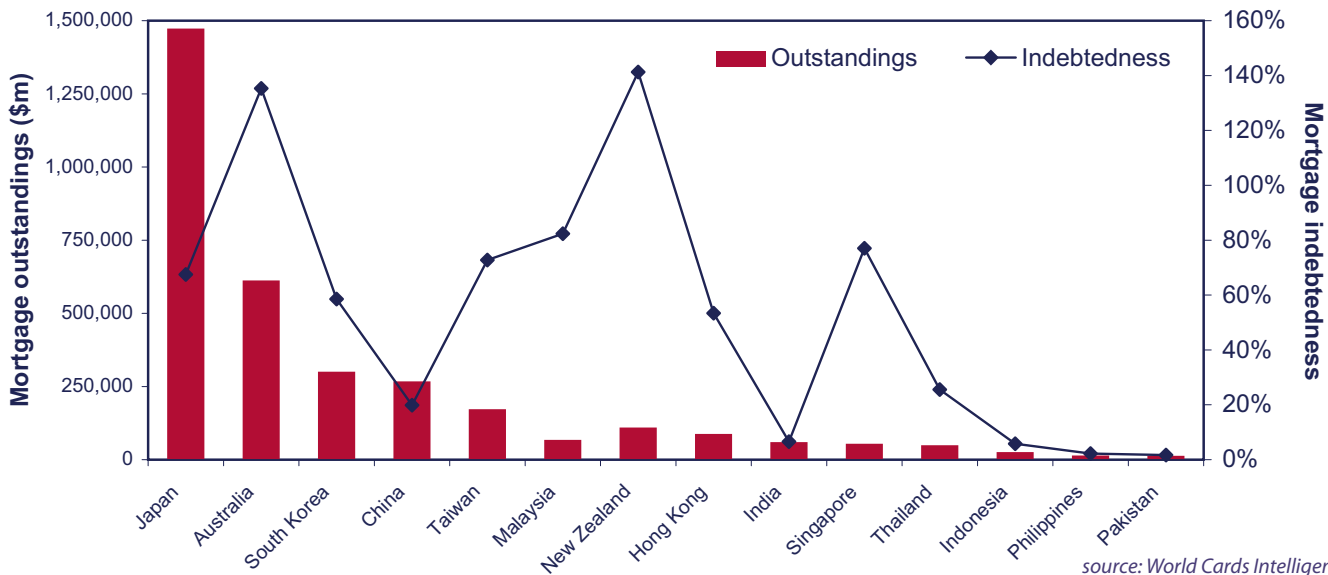
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Fax: +44 (0)20 3008 8426

Email: accounts@lafferty.com

Lafferty Group Ltd., One Hammersmith Grove, London, UK W6 0NB