FIVE YEARS ON….
And the problems keep coming

Money-laundering allegations
Computer systems failures
Manipulation of LIBOR
PPI mis-selling (£5bn compensation so far – and counting)
Selling customers investment products against which the bank itself was betting
Sanctions-busting

When Establishment observers like the Financial Times and Sandy Weill agree that banking has to change, it's time to take notice.

Both come at it from different points of view, of course. Perhaps the most surprising is Weill: this is the man who sold brokerage Shearsons to American Express, then built Citigroup into a behemoth, and has lobbied tirelessly against regulation and for the "financial supermarket" concept. Yet in a July interview with CNBC, he announced that he now thought that investment banking should be separated from retail.

"What we should probably do is …split up investment banking from retail banking, have banks be deposit takers, have banks make commercial loans and real estate loans, have banks do something that's not going to risk the taxpayer dollars, that's not too big to fail."
Sandy Weill, ex Chairman and CEO of Citigroup

Meantime, over at the FT, respected commentator Martin Wolf has this to say: "Banks, as presently constituted and managed, cannot be trusted to perform any publicly important function, against the perceived interests of their staff. Today's banks represent the incarnation of profit-seeking behaviour taken to its logical limits, in which the only question asked by senior staff is not what is their duty or their responsibility, but what can they get away with."[1]

Strong stuff.

And many of us who work in the financial services industry would ruefully have to acknowledge that we have personal experience of this attitude. One example is a bank which, just before the crash, identified over 30 marketing initiatives for the year; each one of them disadvantaged its customers in some way.

[1] Financial Times, 2 July 2012

Stephen Hester, chief executive of RBS, 82% owned by the taxpayer in the world's biggest ever banking bailout, has admitted that the reputation of the financial sector has fallen to "new lows."[2]

Sackcloth and ashes are all very well, of course, but what to do about it? Maybe a starting point would be to look at the good guys. Because not every country's financial services industry is open to the accusation of recklessness and impropriety. Canada's banks, for example, have come out of the crisis with credit. So is there a lesson to be drawn here?

There seems to be general agreement that the Canadian experience is a result of conservative management on the one hand, and tight central regulation on the other. (A booming oil and gas industry probably didn't hurt, either). But avoidance of undue risk, though essential, isn't going to build the bank. That calls for a proactive approach. A fine example of which is seen in TD Bank's business in the North East US: there, a determined commitment to customer service – heavy investment in staff training, longer opening hours, innovative service features – have powered it to a disproportionately large share of customer deposits.[3]

"London should take this opportunity to clean things up. At a cultural level, the appropriate values need to be in the banks. And regulators also need to be more assertive." António Horta-Osório, chief executive of Lloyds TSB

Perhaps this offers a clue as to where battered banks should now be heading. Certainly, there is no lack of advice. From the thundering of newspaper leaders ("Prison for the Guilty Men"), through the fulminations of politicians ("Payments are a utility: nationalise them"), everyone has his own pet remedy. It's also true that within the industry, there's a clamour of voices competing to be heard. But a word of caution here: many of these voices are essentially salespeople pitching their wares. Ever noticed, for example, how social media wonks position social media as being the answer to the industry's problems?

In our view, Stephen Hester has it absolutely right: he points to the need to rebuild customer trust. Unfortunately, this won't happen overnight.

It will also involve some painful shifts. In the UK, for example, it's arguable that much of the current difficulty stems from the tradition of free retail banking. Just as card issuers have hardly even tried to make the case for the outstanding payments service they offer, so have banks failed to show that holding and accounting for customers' money, processing cheques and so on, are expensive. As a result, customers and consumer advocates are free to grumble that it's "doing banks a favour to put your money with them". Some truth in it, of

[2] The Independent, 4 August 2012
[3] Separate note available on TD's fine performance

course – banks need deposits – but it's by no means the whole truth. This lack of transparency creates an inbuilt pressure to recover account-holding costs by charging, and indeed overcharging, elsewhere, How else to explain the 90% plus commissions which banks allegedly enjoyed on PPI?

Some have argued that there's a parallel with the airline industry, where legacy carriers offering "bundled" fares were outsmarted by new entrants, whose prices covered transportation only, and charged for everything else. But this is to put the cart before the horse: the retail banking problem is that it doesn't charge enough for its basic service, not that it charges too much. And anyway, would you really want to create a Ryanbank?

Still, it will take some courage to be the first institution to introduce a properly costed, fully-visible tariff of charges for retail banking customers. The problem is further compounded by banking inertia: customers complain ever more loudly but, barring major service failures, tend to stay where they are. What we have yet to see is whether the confluence of public outrage at banking scandals and the arrival of new, untainted entrants will create a more footloose customer.

Because the retail banking landscape has never been more open to change. To take just one example: Tesco Bank has just launched a mortgage product. Will the fact that it comes from a customer-friendly supermarket rather than a discredited bank make it more attractive to borrowers? Again, peer-to-peer lending (think Zopa, Funding Circle, Ratesetter) is growing fast. Could it grab sufficient share to become a real competitor to the banks? And another thought: the UK Post Office operates an 11,000 strong branch network. Recent announcements suggest that it plans to offer a full-range retail banking service underpinned by its recently-extended contract with the Bank of Ireland.

"71% of respondents do not think the banks have learned their lesson from the financial crisis, up from 61% in September 2011."
Which? Report published 9 August 2012

A prediction? There is no magic bullet. For established banks, the route to long-term stability will come through a blend of:

Sincere commitment to service A renewed focus on the branch network: better-trained staff who build a personal relationship with their customers, shorter queueing times, a brighter environment. (Which doesn't mean turning the branch into a coffee shop: customers aren't fooled by gimmicks of this sort)

Constant, customer-focussed innovation To their credit, Barclays have never lost sight of this: throughout all their recent travails, they have continued to roll out useful new services – PayTag, PingIt and most recently a new mobile banking app.

Willingness to break down the walls For too long, attempts to see and recognise customer relationships in the round have foundered on the rocks of internal power struggles and incompatible systems

Greater transparency on fees, coupled with a major communications initiative spelling out how retail banking works – and how much it costs

Above all, the criterion should be not “Is it good for the bottom line – and my bonus?” but “Is it good for my customers?” This has been a dreadful five year anniversary: let’s learn the lessons and start rebuilding.

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