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‘The Changing Global Retail Banking Landscape: How Competitive are Nigerian Banks?’

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Retail banking is different from corporate banking, because the customers are people and small businesses, rather than big corporations.

Retail banking is also much more challenging than corporate banking, because people tend to bring emotions into their decision-making – while corporates are generally far less demanding because they make decisions on a rational basis.

Retail banking is a much better business from a shareholder's perspective than corporate banking, because of its capacity to generate sustainable, higher profits long into the future.

Retail deposit-taking is the very lifeblood of banking, and these personal deposits are so precious that a value can hardly be put on them in times of stress.

Retail lending is also far less risky than corporate lending, because the individual amounts at risk are small and typically dispersed across a vast customer base. By contrast, a few corporate loans that go bad can wipe out much of a bank's capital base – and all too often they do.

- Why then are retail bankers typically paid far less than their corporate and investment banking colleagues?
- Why is it that the executive boards of banks right across the world are dominated by corporate and wholesale bankers?
- Why is it that retail bankers rarely become bank CEOs?

The answers to all of these questions can be explained by the historical evolution of banking, by misunderstanding and sadly ignorance within banks and sometimes even central banks – and, dare I say it, that all-too-common human frailty - the tendency for a powerful elite within banks worldwide to hold on to power.

So let's discuss how we got here:

1. More or less every bank in the world began life as a corporate bank and this culture still rules. The figures are bigger, the expense accounts much larger.
2. It was only in the last quarter-century that banks in so-called developed economies began to get serious about retail banking – typically by creating separate profit centres for retail and corporate banking
3. Then, banks faced the difficult task of whether to reveal the true profitability of the respective divisions – with many finding the levels of retail profitability so embarrassing that they came with up all sorts of strange new segments in their annual reports and accounts, for example combining retail with less profitable business banking.
4. Another popular device then came into play, known as 'transfer pricing'. Rather than giving the retail business credit at market rates, for surplus deposits that were used to fund other divisions like corporate banking, all sorts of schemes were devised to subsidise less profitable divisions of the bank by transferring some of the retail profits to them.
5. This reached an ugly extreme in the new world of universal banking over the past few decades – because it resulted in inflated bonuses being paid to investment bankers in places like London and New York, on profits they had done nothing to generate. Is it any wonder that senior retail bankers became so heavily involved in mis-selling at the same time? Arguably, they were simply joining the bandwagon at a time when everyone was exploiting

the bank, its shareholders, its clients and the public at large, for their own selfish ends. Of course there was no justification for this – and the British banks are paying a very heavy price for it today, by way of fines and compensation.

6. By the 1990s traditional corporate bankers were losing their powerbase in the big commercial banks of the world to investment bankers, who moved, with the greatest of ease, into the chief executive and chairman roles in the big banks and soon surrounded themselves with bright young investment bankers. Highly educated and sophisticated, well-connected in politics, central banking and the corridors of power, this new banking super-elite took control in what today we call the G-SIBS – the systemically important banks of the world. The process did not stop there – and before long similarly-inclined bankers were suddenly emerging at the top of large numbers of other banks across the globe. It even reached small European countries like Austria, Ireland and Iceland. Neither retail nor corporate bankers at heart, these CEOs liked doing deals – often with depositors' funds - and making themselves richer. As in the banking giants, customers and shareholders were the losers as markets were rigged, and totally inappropriate products were sold to unsuspecting people, who thought that they could trust banks.

In the aftermath of the global financial crisis, great efforts are underway around the world to reform the banking industry. From the Basel Accords to multiple national regulatory and legislative initiatives – not least here in Nigeria – these are generally positive for retail banking. The UK is leading the way with ring-fencing the retail bank off from investment banking and demanding that banking should aspire to become a profession like accountancy and law. Banking standards are on the way. Most striking of all, banks themselves are being forced to become regulatory bodies for everyone who works in them. CEOs risk going to jail if staff at any level misbehave in the future.

The general thrust today in most countries is to focus banks on retail and corporate banking – and away from investment banking. Inevitably, this means that retail banking will be the dominant activity of banks in these territories for the foreseeable future. Before too long perhaps the terms 'banking' and 'retail banking' will be synonymous – and investment banking will go back to being a separate industry. This would certainly be in the best interests of retail banking customers.

I first became interested in banking, and retail banking in particular, back in the late 1970s, when I took over as banking correspondent for the Financial Times. This brought me into contact with a number of new thinkers, who were fascinated by the power and potential of the consumer banking sector – people like:

- John Reed, who had the vision to create a global consumer business and went on to become CEO of Citibank.
- Hans Verkoren, the founding CEO of ING Direct – the consumer-only bank that grew into a global giant by building greenfield businesses in the world's largest and most developed economies.
- Eckart van Hooven, the first retail banker to become a member of Deutsche Bank's board of management – who sought to create a European retail banking cartel to keep out the Americans.
- Dee Hock, the visionary thinker behind Visa, and – not least…

- Stefan Kaminsky, the bearded German humanist who created KKB, the world's first consumer-only commercial bank and who later, wrote the influential thought leadership report titled "Real Banks for Real People", which we first published in 1989 and which is still selling.

I also encountered some fascinating banks:

- like Banco Popular in Spain, which had decided to focus on SMEs and consumers rather than large corporates. Here I encountered "principles-based" banking in action for the first time
- like Handelsbanken in Sweden, which devolved all power to the branches and focused on the overall banking relationship, as did Popular
- like Bradesco in Brazil, a giant of a bank built up by a German emigrant who also provided schools and healthcare for the staff in what came to be known as "Cidade de Deus", the City of God"

All influenced me greatly and taught me that there really is a world market for consumer banking – because people have far more in common than divides them – and that the provision of these services is a sacred responsibility that should only be the prerogative of professionals, who will always act in an ethical way, in the best interests of customers.

Thanks to the support of people and organisations like these, I set out to build a global business by providing retail banking research and intelligence, then education and most recently bank quality ratings to the banking industry worldwide.

- We started by publishing newsletters and research reports on retail banking trends and developments across the world. This took us into the conferences business, which we went on to host across the globe, including in Africa - proof indeed that there was a world market for retail banking. Along the way, in response to client demand, we built a global online research database on retail banking, cards and payments. This now covers 70 countries, with more being added each year, including 10 in Africa and 9 in the Middle East.
- Before long, clients began asking us to create Councils, where senior retail bankers could meet in confidential sessions, to share best practices and brainstorm the future of the industry. Our first Councils – the International Retail Banking Council and the International Cards and Payments Council – are celebrating their 20th anniversary this year and are now branching into Africa.
- I am pleased to tell you that senior retail bankers from 14 African countries meeting in Cape Town last week, agreed to establish Retail Banking Councils for Africa (RBCA) with the aim of promoting the development of retail banking across the continent – particularly through the growth of deposits and banking penetration. This will be achieved by sharing best practices from across the world, committing to continuous dialogue with regulators and becoming a voice for the industry to the media and the public at large. RBCA has two parallel membership groups – a Retail Banking Council and the Cards, Payments and Mobile Council. Its activities are guided by an Advisory Board, under the chairmanship of Patrick Akinwuntan, Group Executive, Domestic Banking at Ecobank. I am pleased to tell you that Dr Segun Aina, immediate past president of the Chartered Institute of Bankers in Nigeria is also

an advisory board member – while Femi Ekundayo, another former president of CIBN will also be playing an active role in the Council.

I think you will be interested to hear that one of RBCA's first decisions was to establish a working group to draw up guidelines for fair transfer pricing – possibly the most contentious subject in retail banking for as long as I have been in the industry. The Councils will convene every six months. Meetings are planned for Nigeria, Egypt and Kenya in 2016 and 2017.

The Councils were the inspiration for another major step by our group – the Retail Banking Academy which took its first tentative steps as recently as 2011. We launched the Academy because client banks all over the world wanted us to create it. They had been complaining for years that professional retail banking education was just not available – and this was the case in country after country, continent after continent.

In reality, these banks had moved on from the days of the general bank, largely focused on corporate banking, to a new world, where the real battle was to provide services to personal customers. The general bank was no more. The retail bank had come of age – and was already becoming the main source of bank profits in many developed economies.

Today over 5000 bankers in some 80 countries are studying for the Academy qualifications in retail banking and cards and payments. The designations are Certified Retail Banker (CRB) and Certified Cards and Payments Professional (CCPP).

And I am delighted to tell you that Nigeria is our largest market for the Academy, accounting for around 20 percent of the current body of RBA candidates. Nigeria already has one fully qualified Certified Retail Banker, who has successfully completed the requirements to achieve full certification. In the coming year, that number will potentially rise to thirty and in two years' time, Nigeria will have up to seventy-four Certified Retail Bankers, working in the sector.

We are now entering another phase in this market – and are proud to be partnering with CIBN to bring world-class retail banking education to the entire industry in Nigeria. We have similar partnerships in many other countries and all are contributing to the mission of professionalising retail banking around the world.

As chairman of the Retail Banking Academy, I am a strong advocate of retail banking becoming a profession – and I passionately believe that retail bankers should be required to act in the best interests of their clients at all times. This means that they must be educated to a similar standard as accountants and lawyers, bound by a demanding ethical code and required to commit to continuing professional development. As we celebrate the graduation of the first CRBs around the world, the Retail Banking Academy is now in the process of creating a not-for-profit Institute of Retail Banking, which will be the professional body for members. It will incorporate the role of the current Governing Body of the RBA – with responsibility for the curricula, the exams, CPD and not least, discipline. Members who bring discredit on the Institute will be suspended and if necessary expelled.

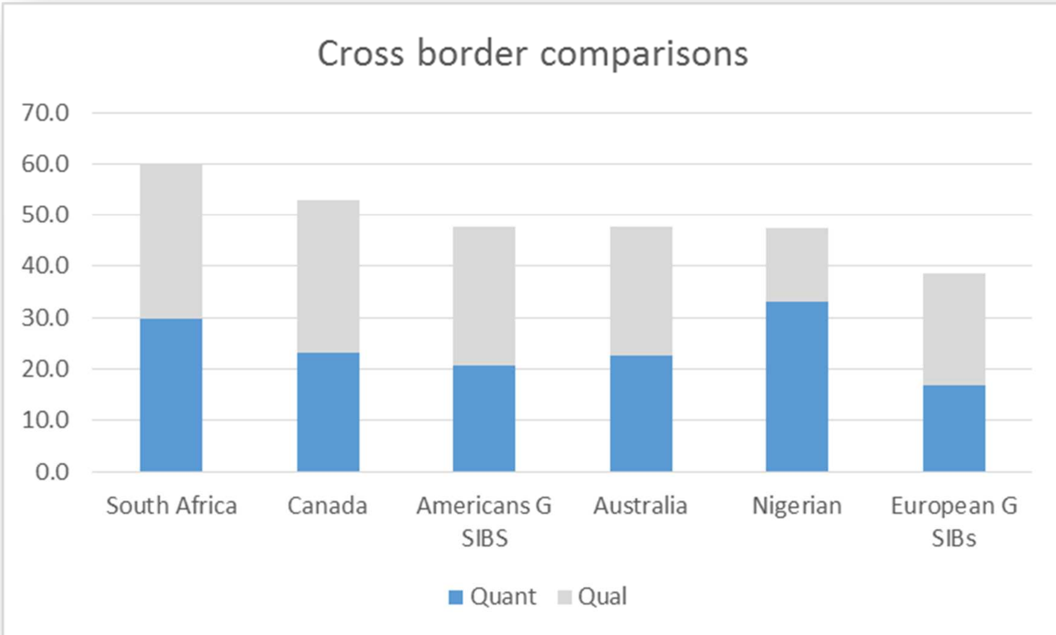
My invitation from the Institute asked that I address you on the topic of how competitive Nigeria is in the global retail banking landscape. In order to answer this I will share with you some findings from another of our businesses – Lafferty Bank Ratings, which scores banks worldwide for their overall quality.

Our criteria for doing this work are both quantitative and qualitative – from financial ratios to important matters like strategy, culture, brand promise, and management experience and qualifications. We only use material that is in the public domain, particularly the financial statements and annual report.

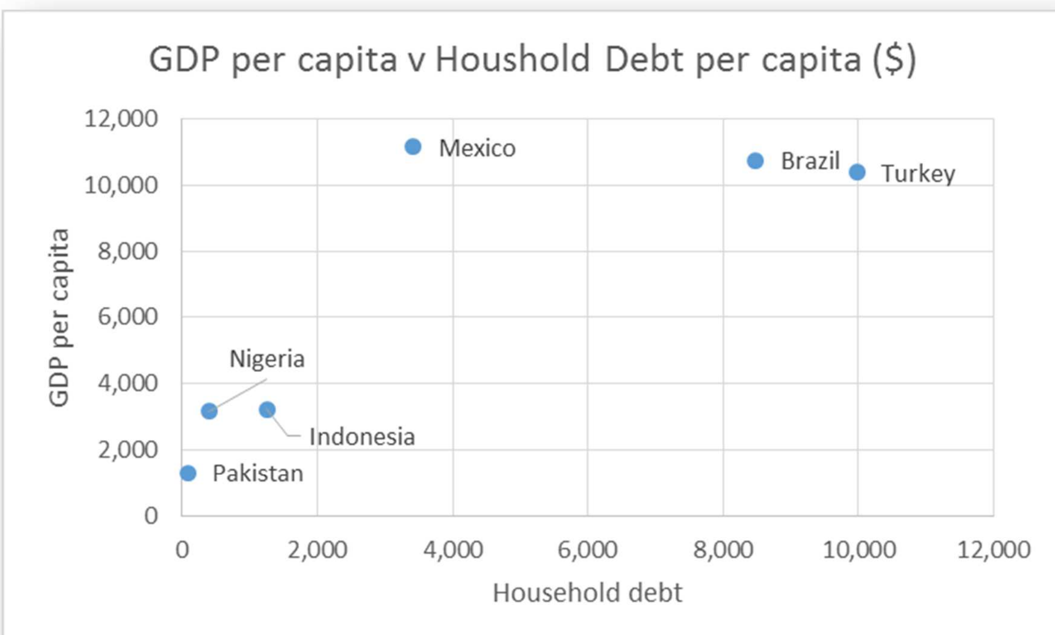
A selection of Lafferty Bank Ratings Metrics	
Quantitative Metrics	**Qualitative Metrics**
1: Mainly deposit funded	1: Strategy: clarity or fluff?
2: [redacted]	2: [redacted]
3: Retail-centric	3: Brand Promise
4: [redacted]	4: Culture
5: Good liquidity	5: [redacted]
6: [redacted]	6: Management Experience
7: Treating Customers Fairly	7: Customer Loyalty Metric
	8: [redacted]

We selected the criteria last year, after face-to-face conversations with senior bankers and regulators all over the world. We were not long into the process before the answers to the question of what makes a quality bank became very similar. There was general agreement on the criteria we should use to make our assessments. Our criteria have a significant retail banking orientation – and reflect the general view we encountered that quality banks will have substantial and growing retail activities.

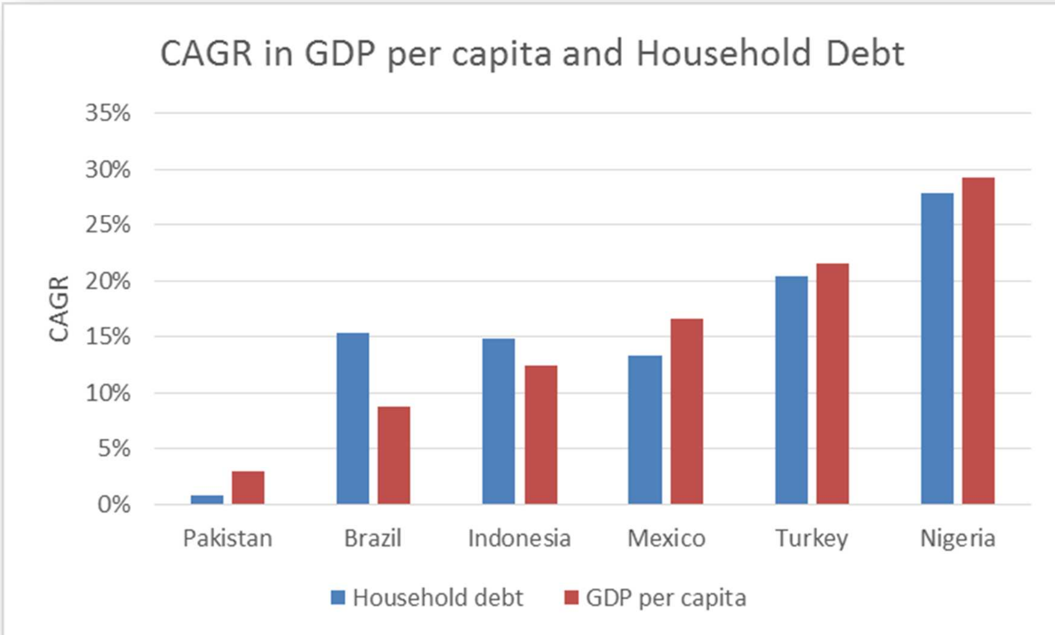
So how do the Nigerian banks as a group rate by comparison with their counterparts elsewhere in the world? The three charts coming up on the screen will show you where Nigerian banking stands overall, in terms of our bank quality ratings – as well as in terms of borrowing by consumers.



1: Average overall country ratings of banks in Canada, Australia, South Africa and Nigeria, as well as the European and US G-SIBS, for quantitative and qualitative criteria.



2: GDP per capita vs Household Debt per capita ($US) – Brazil, Indonesia, Mexico, Nigeria, Pakistan and Turkey.



3: Compound Annual Growth Rates per Capita against Household Debt – Brazil, Indonesia, Mexico, Nigeria, Pakistan and Turkey.

The messages are clear:

1. Nigerian banks rank well in the world in terms of their overall quality. Their financial ratios are particularly good and their overall ratings will improve considerably when they devote more attention to the qualitative aspects of their annual reports – including clear statements on their strategies (and how they will be achieved), culture, customer satisfaction and so forth.
2. Nigerian banks are at about the same stage of development in retail banking as their Indonesians counterparts, though they lag when it comes to cards and payments. Their future potential lies primarily in retail banking.

I now want to speak to you about the future of retail banking. As the examples of Citibank and ING show, retail banking can only reach its full potential if it run through a separate bank – whether this be standalone or within a broader banking group. If it is part of the latter, the group CEO must also be a believer.

It is important to understand that retail banking is a different business from corporate banking – and it is even more important to keep retail deposits out of the reach of those who are at home in the world of trading and speculation.

So what about Fintech, and the threat from new entrants? Let's take these one at a time:

1. MNOs – for sure, the telcos are a threat, not least as they get banking licences, but the good news is that they will generally need to partner with banks. Their customer lists are the best-quality prospects available today.

2. The big US tech companies – these have awesome potential, initially in payments but banks can beat them with professionalism and the trust they are capable of engendering in people.
3. The new web-based players – most of these will fail, like the first round of internet banks and like all new businesses. Some will prove very successful, particularly with the tech-savvy and rate-sensitive segments, who are avid readers of the personal finance media.

Let me get more specific about Africa, where the population with mobile phones is more than double that with bank accounts. Yes, at most 30 percent of Africans have access to banking services – compared with more than 80 to 90 percent in Europe and North America. As they say in India, where some 300 million people are currently opening simple bank accounts thanks to a massive government initiative, everyone should have access to the banking system. It is a basic human right and it will do wonders for the economy.

Governments, central banks and banks across Africa should now commit themselves to making Africa a banked continent by 2020. It can be done – and it does not depend on branches, though these have an important role, and probably will for many decades into the future. Nigeria should show the way!

The MNOs already have at least twice as many customers as the banks and they want to go beyond payments – by making loans, taking deposits and selling other products to their customers. They do not have the capital resources or the risk and other management skills to play the role of banks themselves – at least in the short run – so partnerships of one kind or another are the way forward. The example of AFB from South Africa/Mauritius, where a fleet-footed finance house is successfully partnering with MNOs across several African countries is a real-life case study for how to do it!

Other partnerships will also have an important role to play – with big and small retailers alike:

- Banks and retailers have a long history of working successfully together in South Africa, Latin America and elsewhere in the world – and if the banks do not come to the party the big retailers will become retail banks themselves, as Falabella and Cencosud have done in Chile
- Small shops and even newspaper/tobacconist booths also have a vital role to play as agents for the banks. Western Union has shown how this can be done across the world's emerging and developing markets with remittances – and Compte Nickel in France is proving that agents can also work in the world's most sophisticated markets.
- Then there is Apple Pay and the other big tech companies. While their "subscribers" cannot be described as customers, they own vast amounts of consumer information without people realising it and must be explored as potential partners in banks' quest to find the most efficient and sustainable distribution/access systems.

I appreciate that I have been talking about a world that will have seemed alien to some of you. To those of you who are CEOs with no retail banking experience or are currently corporate or investment bankers, I say retail banking is the future. It is all or nothing and not just a deposit-taking business. Embrace it for all its potential. Come out of your executive suites in those skyscraper buildings and mix with the people – for they are the future of this great country!

I now want to commend the central bankers whom I am honoured to address here today. Thanks to the cashless economy programme and with bank verification number biometrics targeted to become effective at the end of June, Nigeria is now well-placed for the take-off of transparent consumer lending. Central bankers should build on this by learning as much about retail banking as you already know about the capital markets, investment banking and corporate banking. Study the lessons of the many banking crises we have been through, reflect on how other (wholesale) financial industry cultures can corrupt retail banking and do great damage to society, and put Nigeria on the road to having the world's first truly professional retail banking system.