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HOW TO RUN A BANK

trends in corporate & retail banking

Long live the mid-tier banking revolution

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FOR THE BOLDEST MID-TIER BANKS, 2010 MIGHT TURN OUT TO BE A SEMINAL YEAR. AS WITH ALL RARE EVENTS, THIS CRISIS HAS PROVIDED RARE OPPORTUNITIES AND REGIONAL OR SUPER-REGIONAL PLAYERS COULD REAP BIG BENEFITS

Every cloud has a silver lining – or so the saying goes. Yes, it has been the most challenging environment most of us will face in our working lives, but on the plus side it has allowed banks to inject new thinking into the way they operate. Much has been written about the imperative to innovate during a downturn. Whether you buy that or not, there are opportunities in the financial sector today that simply would not have existed five years ago, particularly for the so-called mid-tier banks that have weathered the financial storm better than some of their larger rivals.

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The main players have in the past benefited from the flight to counterparty quality. This force tends to benefit incumbent market leaders by amplifying the protection they offer against risk. It is what used to be called the 'IBM-factor' in the technology industry.

But uncertainty in the financial sector has altered the terms of engagement and simply being the incumbent is no longer enough to keep and win business. We are seeing innovation and service excellence

rewarded like never before and in any given niche, the flight to quality is as likely to benefit new entrants, provided they offer exemplary and flexible services.

A series of unfortunate events

The context for this unique set of conditions is extremely unusual. We have witnessed once-in-a-lifetime events, such as the Federal Reserve breaking with tradition to allow investment banks to change radically how they are structured. The UK faced the first run on a bank since the 1860s.

As with all rare events, this crisis has provided rare opportunities. We are seeing regional or super-regional players investing for growth in niches they know well such as retail foreign exchange, post-trade operations or corporate treasury management. For the boldest mid-tier banks, 2010 might turn out to be a seminal year.

Maturing standards

To understand why the mid-tier banks could do particularly well out of the recent turbulence, it is necessary to reflect on the way technologies and standards have matured. As individual financial institutions have become ever more integrated with one another, banks – like other corporations – have been moving away from proprietary technologies, towards shared platforms. It is this integration that enables vital developments such as straight-through processing and e-operations. And this shift has also reduced barriers to entry, allowing the most dynamic banks to capitalise on opportunities as soon as they arise.

These opportunities are, in many cases, market-led, created by growing demand for specific services. But they are also being amplified by intervention. For example, regulators are increasingly likely to insist that corporations shop around for specific banking services as a means of spreading their exposure to credit risk, creating new business opportunities for market entrants.

Customised banking services, built to suit individual client requirements, were once too expensive to be commercially viable. But for mid-tier banks in particular, customising a service for a long-serving and loyal client may look to be an attractive client retention strategy in the current market. And combining excellent customer service with niche specialisation can have a profound effect on earnings and growth.

Dig beneath the dreary newspaper headlines and there is a growing movement of regional or super-regional banks finding new ways to absorb market share. There are examples of innovation everywhere: as the Chinese economic phenomenon has unfolded, mid-tier banks have made inroads using import and export refinancing and export Letter of Credit forfaiting. In the US, mid-tier banks are lining up to offer foreign exchange trading services, or to broker profitable relationships between their mid-sized customers and the major providers of liquidity. Innovations such as mini-treasury workstations can now allow a corporate treasurer to conduct transactions, see real-time exposures, positions and risks, and provide regulatory or accounting reports – all without having to commit to major capital expenditure.

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Specialised thinking

Finding new areas of specialisation will become essential, according to research from IBM that suggests universal banks and ultra-focused niche players will thrive in 2015, while mid-sized generalists will be squeezed. The real tale of the banking crisis has not been a financial one, but a human one. People ultimately like to deal on their own terms, and deal with organisations that listen. The best mid-tier banks are able to listen because they occupy a niche where they know their customers. And they can be flexible enough to meet their customers' needs without a fuss.

Mention the flight to quality, and most people will think this means turning to market-leading incumbents. But biggest does not always mean best, and the upturn will be marked by a change in perceptions about where quality lies. The time has come for mid-tier banks to compete for a bigger share of the markets they know best, from the customers to which they are closest.

biography

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CEO Agenda

1. **For mid-tier banks,** customising a service for a long-serving and loyal client is an attractive client retention strategy in the current market.
2. **Combining excellent** customer service with niche specialisation can have a profound effect.
3. **Finding new areas** of specialisation will become essential.
4. **People ultimately** like to deal on their own terms, and deal with organisations that listen. This will benefit the best mid-tier banks.
5. **Biggest does not always mean best,** and the upturn will be marked by a change in perceptions about where quality lies.

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