

What has changed since the crisis?

>> Five years on from the start of the financial crisis, which was triggered by the collapse of Lehman Brothers in the US and Northern Rock in the UK, the banking sector is still at the heart of developments in the world economy.

This is arguably why governments continue to pour money into banks. However, the public is still waiting for serious changes to be made to the culture of the banking sector, including how performance is defined and rewarded within the industry. To win back the trust and confidence of consumers, banks need to demonstrate how they have changed and what steps they have taken to prevent a repeat of the financial crisis in the future.

The current landscape

In the last few years, banks have come under increasing scrutiny. A number of scandals have emerged, from the mis-selling of risky mortgage bonds by banks operating on both sides of

the Atlantic, to the LIBOR rate rigging scandal which went on behind the scenes at British and Swiss banks. The high compensation packages of CEOs and senior executives in the banking sector remain highly controversial, particularly when it involves taxpayers' money.

As a result of the continuing crisis and scandals, the Financial Services Authority (FSA), the body responsible for fairness in the sector, is to be abolished this year. In its place, a new regulatory framework will be introduced. The Bank of England will be given the power to monitor the financial system as a whole, with day-to-day regulation and supervisory powers being split between the Prudential Regulation

Authority (PRA) and the Financial Conduct Authority (FCA). The PRA will be established as a subsidiary of the Bank of England. A new Financial Policy Committee (FPC), also within the Bank, will address wider 'macro-prudential' issues that may threaten economic and financial stability.

Regulatory reforms have been put in place in an attempt to curb the excesses that have been identified, including changes to regulations on minimum capital and liquidity requirements to create conditions that enhance the governance and control of financial institutions.

Challenges ahead

Regulation alone won't change the risk-taking culture within banks. Misleading customers to achieve short-term returns should be punished. Sadly, this type of unethical behaviour overshadows the actions of those who are truly talented, who genuinely care about their customers and whose effective and efficient practices facilitate the survival and growth of many businesses nationally and internationally.

Many financial groups have grown tremendously over recent times, but this growth in size is not always accompanied by an integration of



systems and processes. A multitude of products is on offer but these offerings are not always supported by adequate systems, resulting in many banks facing inefficiencies. Until these issues are resolved, banks will struggle to improve performance and focus on activities that generate and enhance the customer experience.

Opportunities

Regulatory reforms offer the industry an opportunity to restore its reputation and address the internal pressures which have created inefficiencies. Low interest rates mean banks need to get

smarter at finding ways of generating revenue without compromising their integrity.

Opportunities are likely to come from a strategic approach which embraces new markets and innovative technologies. For example, banks could use IT-driven innovation to encourage customers to use low-cost, reliable and flexible digital channels for day-to-day services, while investing in personalised banking for more demanding interactions. This can help foster loyalty and generate more revenue.

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Younger consumers represent a segment of important growth for proactive banks. Generation Y consumers (those born between 1980 and 1992) need advice about how to manage their day-to-day finances. They will be tomorrow's big earners and if banks fail to win their loyalty and trust today, they are storing up big problems in years to come. Banks should also look more carefully into ways of financing versatile and sustainable projects which address environmental challenges. This is an issue that is of growing importance to all generations. Increasingly people are opting to do business with companies that have strong green credentials.

Finally, banks need to invest in people. An employee-focused organisation that rewards talent and long-term performance and has clear governance and leadership involvement is more likely to have a competitive advantage that leads to growth.

More than ever before, banks require the endorsement of their stakeholders in this process of change. If they are successful in this transformation, they may once again be regarded as the engine for economic growth. **MF**

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