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## **THE SERVICES OF SMALL BANKS FOR CONSUMERS**

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The legislation of financial services for consumers is targeted more towards banks (oligopoly in supply) than towards the protection of consumers (polipson in demand), where banks predominate consumers, who are the weaker partner in the transaction.

## I. THE BOOK: Good banking

The detachment of bad banks from real life is one of the reason for the crisis. The detachment has even escalated in the last decade.

Large banks are TBTB, TBTF, TBTM and less responsive to the needs of businesses, the population and the environment.

Relationship lending is disappearing on behalf of digital virtual relations.

Good banking should predominantly service the real sector: enterprises and consumers.

The focus of the presentation is on the relationship: small banks - consumers

## II. WHAT WENT WRONG AND HOW SHOULD IT BE IMPROVED ?

We need financial health and financial justice for people.

To achieve that:

- increase the income of the poor and middle class, less income inequality,
- better financial education of the population,
- the services to consumers should be extended from financial to non-financial.

The relation of small banks to shadow banking institutions, advantages of the latter, but...

- the role of technological progress in finance: could be positive or negative,
- no capital, liquidity and corporate governance requirements for fin-techs, funds, enterprises.

The expansion of bank services for consumers: „back to the humans”

- additional financial services: bankers as financial doctors for consumers and their families,
- advice for tourism, health,
- beauty salons,
- children’s playgrounds,
- car repairs.

This means the opposite of the invasion of the real sector entities into banking services.

### III. A.T.KEARNEY'S STRATEGIC VIEW ON RETAIL BANKING

A new business model for retail banking: digitalization, cost cutting, outsourcing, closing branches.

\*Critical remarks regarding this „anglo-saxon business model“:

- One model is suggested for all people, all the time - different countries – not good;
- The micro optimum for an individual bank is not at the same time the macro optimum for the whole society,
- Leap-frogging in technical development could sometimes create damage,

\*Alternative „continental Europe business model“:

- The lower prices for provision of services will increase their amount and thus banks in the European business model could end-up with a higher income,
- Replacing closed big bank branches with branches of small banks with relationship banking could be advantageous for both, the small banks and the society.
- Nurturing personal relationship with clients improves the welfare of the society.
- Introducing elements of banking with purpose (ecological, social) could bring additional value to the society.
- Higher level of risk aversion in small banks could delay the emergence of a new financial crisis.

#### IV. EXPERIENCE IN THE USA AND THE EU

\*The USA: Lisa Servon: Unbanking and underbanking (2018)

- financial distress of consumers,
- creation of bank deserts,
- but: the creation of the Consumers Financial protection Bureau under the Dodd-Frank act,
- nowadays it is difficult to establish new banks in the USA.

#### The EU

- restructuring banks by closing branches and leaving bankers as a burden to society is easy to execute; it can increase the bank's profit, but has negative externalities for society,
- a consumer financial protection agency should be established,
- bank deserts are starting to appear by following the new business model: the priority of maximising individual profit over society's welfare optimisation
- The approach of small banks with relationship banking (a deal with the local authorities) to consumers could easily replace the withdrawn bank branches and ATMs in outer regions.

## V. THE ISSUES OF REGULATION

- a) More, less regulation or deregulation? Equal regulation for banks and non-banks ?!
- b) According to the EU regulation (article 89-91, EU regulation 648/2012) the non-financial services of banks can be established in separate SPVs with the bank's investment of up to 15% for an individual entity, and 60% of the total bank investment in non-financial entities.
- c) Non-financial services of banks are not allowed according to Slovenian banking law, so special legal entities should be established for non-financial services (type of SPV) and then consolidated into a banking group.
- d) A consumer financial protection agency should be established in the EU member states to replace the present insufficient partial solutions for consumers.
- e) The ex-post application of proportionality is too late if we want to preserve small banks (the economy of scale issue), which could expand new services (economy of scope issue).
- f) The newly prepared revision of the EU regulation (CRR, CRD4) in the field of proportionality enables the introduction of changes, which will be friendly to consumers.
- g) Big banks oppose the affirmation of the principle of proportionality with the argument that it would put them on un-equal footing with regard to small banks, but in fact it would only eliminate the advantages larger banks have due to the economy of scale.

## VI. CONCLUSION

We need an industry that keeps people's money safe, provides high quality, affordable products and services, aligns with democratic values and truly serves people, in the best sense of the word (Servon, 2018, XIX).

It is necessary to support the protection of the financial rights of consumers, including the creation of a new consumer financial protection agency in the EU, which would moderate the financial instability and stress. Such an institution already exists in the USA, although its tasks have recently been diminished.

The financial field is becoming highly sophisticated so that a certain nudge of consumers in the right direction is needed for financially un-educated people at large.

The asymmetry regarding financial knowledge and financial information between banks and consumers is too large to be left un-corrected due to ethical criteria. In this, the financial and other services of small banks for consumers should be safe, attainable, fair and transparent. What is needed is financial justice.