No bank is an island

Get global before globalization gets you

There’s no denying the reverberations of the credit crisis that began in 2007. Even if the crescendo finally has occurred, retail banks face flattening performance, market turmoil and a mounting global shift in assets. Yet, the worldwide financial system is expected to quadruple by 2025 to nearly US$1,300 trillion. Executives agree globalization will open new windows of opportunity and unleash potential new threats, pushing banks beyond today’s boundaries. And, while many feel unprepared, the reality is that no bank – big or small – can opt out of globalization.

Today’s performance woes, combined with the quest for sustainable growth, are pushing banks beyond geographic and product-centric boundaries. In our most recent survey, conducted in cooperation with the Economist Intelligence Unit, we examined the effects of globalization on the retail banking industry. Bankers agree: globalization is the single greatest opportunity – and yet also the greatest threat – facing the industry today.

Globalization is affecting banks large and small – understanding what customers want is only half the battle, as banks must then reach customers in ways that meet their unique needs. Market advantage will lie with banks that rethink their strategy, structure and culture to reflect a changed reality. Our study led to some unexpected discoveries, including concrete actions banks can take to move beyond the status quo:

- **Winners will break away from the herd** – Bank executives recognize the need to measure the risk and reward trade-offs of globalization, and fear worldwide windows of opportunity may be closing. Understanding their own strengths against the changing nature of systemic risk as well as financial sector sophistication in different parts of the world will allow them to choose the right strategy.

- **Specialists may have the advantage** – Specialist banks with their targeted strategies and focused expertise, seem to own the advantage in understanding customer needs. New entrants appear to be targeting and empowering key customer segments at the base of the “innovation S-curve” and are using their strengths to win the hearts and minds of their customers.

- **Banks feel unprepared** – Banks are struggling to operate in a more agile and global fashion, yet a surprising 51 percent of universal banks rank their global integration capabilities as moderate to poor – and the figure rises to 69 percent across all respondents.

- **A key enabler of global success is winning minds** – While executives realize that organizational culture is the top enabler of global integration, they also recognize it can be a formidable barrier.

Without question, banking is becoming more global. However, banks have a choice in how they attain greater growth, efficiency and effectiveness – for some, this means becoming a globally integrated financial services provider. For others, it means expanding the bank’s global reach in a more targeted fashion.

Our study identified differences between the benefits that veteran market bankers are seeking and those that motivate...
prospect market bankers (see Figure 1). The biggest disparity in benefit relates to firms’ growth objectives, where prospect market firms are after new product innovation, while veteran market firms are in search of a broader customer base.

Regardless of the desired benefits, and regardless of whether a strategy is in place to address the impacts of globalization, our study demonstrates that globalization will affect ALL banks – even those with purely local or regional strategies. Economic development in emerging markets, increased cross-border flows and new forms of global alliances have all made banks, and risks, more interdependent. The sub-prime mortgage crisis serves as a powerful example.

Push beyond today’s boundaries
Market advantage will lie with those banks that rethink their strategy, structure and culture to reflect a changed reality. The full version of this paper provides more detail on each of our recommendations below – we believe banks must:

- Calibrate their global risk/reward strategy.
- Specialize to leapfrog the innovation S-curve.
- Globally integrate capabilities on revenue and cost sides.
- Win minds to address cultural requirements, internally and with customers.

“The fact that we fail to integrate our capabilities across regions truly stifles our ability to profit from globalization. For most banks, entering a new market means duplicating front-to-back activities. And managing global talent and governance will be critical.”

– Division Head, Universal Bank, Europe

Executives agree: globalization will yield new windows of opportunity, pushing banks beyond today’s boundaries. And, while many banks feel unprepared, the reality is no bank – big or small – can opt out.

FIGURE 1.
Benefits sought from a global strategy.

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage of survey responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to broader customer base</td>
<td>80</td>
</tr>
<tr>
<td>Access to new product innovation</td>
<td>70</td>
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<tr>
<td>Scale efficiencies</td>
<td>60</td>
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<tr>
<td>New sources of talent</td>
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<tr>
<td>No global strategy</td>
<td>40</td>
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</tbody>
</table>

n=449

Note: What are the main benefits your organization seeks from being a globally integrated financial services provider, or from expanding its global reach? Select up to three.

Source: IBM / EIU Survey; IBM Institute for Business Value analysis.

References

1 IBM/EIU projections; Thomson One Banker; IBM Institute for Business Value analysis.

2 The innovation S-curve is a graphical representation of how the number of adopters of a particular innovation varies over time. As a product or service reaches maturity, the number of adopters naturally levels off. Additional waves of growth are created by disruptive or discontinuous innovations. See R. N. Foster. *Innovation: The Attacker’s Advantage*. New York. Summit Books. 1986.