



## BANKS ON THEIR MARCH TO THE BALKANS

When looking at the geographical map, then you can easily understand the logic, how most of the foreign banks, those with the majority of foreign ownership, entered the Balkans (dear Reader, in this article I will mainly focus on these countries, which are on the Balkans and belonged to former Yugoslavia): **they pullulated within the region like spiders from their home countries.**

The Austrians (Raiffeisen, Erste Bank, Volksbank, Hypo Group Alpe Adria) entered the Balkans mostly through Slovenia as the first developed country within former Yugoslavia, the Italians (UniCredit, Banca Intesa San Paolo IMI) expanded their network in the region primarily through mergers and acquisitions, Greek banks (EFG, Nationalbank of Greece, Alpha Bank) approached the Balkans from the South and Hungary's largest bank, OTP Bank, came from the North.

Just the French banking groups (Societe Generale, Credit Agricole), which are very well-established on the Balkans now for many years, did not follow this scheme.

Nova Ljubljanska Banka as the only noteworthy international banking group from Slovenia is at the moment already covering almost the entire ex-Yugoslavian market with a not-inconsiderable share, whereas all the other local Slovenian banks – from my point of view – overslept these opportunities.

When considering this trend to be continued, which means that on one hand these international banking groups will expand within the region and that on the other hand additional big players like Bank Santander, Royal Bank of Scotland or HSBC (just to name few of them) will probably enter the Balkans by perhaps acquiring one of the existing networks, then the question is: **“Are there any opportunities at all for local banks to survive?”**

International banking groups do not see each country individually; on the contrary they treat a certain market more from the region's perspective: UniCredit for instance operates with their banks at the moment in four ex-Yugoslavian countries with 367 branches (figures as of December 31, 2006 according to their website) and widely standardized products and services. Whenever an additional country within the region developed, new branches opened or new products had to be implemented, **it's simply “copy and paste” for the UniCredit bankers.**

And especially international customers like this idea, because they can easily follow “their” bank from country to country without re-learning every product and understanding how to handle it. Or imagine, you are running your business operations in several countries and you have to use several different e-banking applications with different features and functionalities...



The negative aspect in connection with the expansion of large international banking groups within the region is their pressure to deliver continuously short-term results to their shareholders. **And shareholders do not give a damn about top news anymore, today they expect more and in fact everything in superlative:**

- the highest number of customers,
- the largest growth of the total loan volume,
- the ultimate number of branches, etc.

And this again leads to an absolute crazy crowding out, because **banks are fighting like in a “war for customers”**. Side-effects of this kind of competition are so-called price-dumping and risk-taking:

1. Interest margins are going down: I remember – just as an example – in the early 90s, when customers were charged with interest rates of up to 15% p.a. for housing loans in Austria. Today the interest rate for the same loan is connected to Euribor (e.g. 3-months-Euribor with 4,15% p.a.) plus a margin of 0,5 to 0,75%. And I believe that this trend already reached the Balkans as well...
2. Risk, especially credit risk, on the other hand is increasing: in most of the countries customers are able to receive consumer loans without any proper risk analysis or credit scoring, just by presenting their identity card and the latest salary slip. And I believe that it's just a matter of time, until such an approach will collapse...

Globalization of the world's banking system is a byword for Basel II and other international regulations. Although I'm very sceptical about most of the items that are covered by for instance Basel II, **there is no way out** and as we can see, **several National Banks on the Balkans already began to inherit Basel II regulations into their local programs.**

For large international groups that are already dealing for years with developing and implementing the required standards in the Western countries, it won't be a big challenge to transfer their systems to their subsidiaries on the Balkans. But smaller local banks do not even have appropriate resources and knowledge for such a huge and intensive project...

And instead of providing resources and knowledge to the banks, most of the National Banks or Financial Market Regulators consider themselves more as administrators, observers and supervisors in that respect.

But globalization can also be seen from capital's perspective: as a small local bank you are usually not evaluated by one of the international rating agencies. And this again means less creditworthiness in case you would like to borrow funds on the international money market. And less creditworthiness means higher interest rates for the funds you borrow and finally either higher interest rate for your customers' loans or less interest margins and less net interest income respectively for your bank.

On the other hand large international banking groups with certain ratings like Erste Bank (Standard & Poors: A, Fitch: A and Moody's: AA3) are able to borrow cheap money and distribute it inside their group: if there is for example any need for certain strategic expansion, either into their network, into new businesses or products, or even just to avoid extraordinary high obligatory reserve requirements like in Serbia or Croatia.



After all those arguments, which are just in favour of large international banking groups, I would like you to remember my question at the beginning of this article and my opinion is **YES, there are opportunities for local banks to survive on the Balkans.**

At the moment Retail Banking, which means providing banking products and services for private individuals, is the “big hype”. All the large international banking groups are “doing Retail Banking” and as far as I can recognize, more and more small local banks on the Balkans are jumping into the same water.

Instead of copying the big ones I would recommend local banks to position themselves in certain niches, for example as a private bank for affluent people or as a direct bank like ING DiBa ([www.ing-diba.at](http://www.ing-diba.at)) or as the bank for securities brokerage, money management or financial advisory services like Charles Schwab ([www.schwab.com](http://www.schwab.com)).

**Once those niche players reach a market share of 10% or higher in their segments it will be very difficult for other competitors to eliminate them from the banking market.**

Local banks will be able to assert their position by developing new distribution channels. Successful companies – not banks! – like AWD ([www.awd.at](http://www.awd.at)), who call themselves “independent financial optimizers”, **took over one of the banks’ core competences: selling products and services** in favour of banks, insurance companies and mutual funds.

The difference is just that they do it much better and more efficient than especially banks do it – so why do banks not just copy their recipe for success, either by cooperating with such “independent financial optimizers” or by establishing their own “AWDs”?

**What are a bank’s core competences? From my point of view marketing including sales management, organization and people management – and everything else can be outsourced.**

And to be honest, it would be a huge competitive advantage – especially for small local banks – to execute this idea and so to transform fixed costs into variable costs. Why? ... because there is no space anymore for cost-income ratios of 70% and higher in our today’s financial benchmark analysis.

Service providers like First Data International ([www.firstdata.at](http://www.firstdata.at)) or “banking factories” could then provide services like payment processing, card processing or loan management to all the local banks, but on a region level with higher economies of scale and therefore less costs for each single bank.



Of course, there are a lot of additional ideas available than just the ones I described above, but I believe **it's enough to be able to conclude the following scenarios:**

1. The consolidation of international banking groups will also influence the situation on the Balkans. Let's imagine that UniCredit for instance will take over Societe Generale – how it's already said in the business media – then you will find the same banking product literally on every corner.
2. Small local banks without diversification strategy, which means how they distinguish themselves from others, will disappear from the market. In that respect I would like to point out that this is valid for Slovenian banks as well.
3. And the clever and wiser ones among the local banking society, those really ready to position themselves in certain niches, will make “good money”, just in other business segments and with different customer orientation than their competitors.