

## **Interview with Eric Leenders, Executive Director of Retail at the British Bankers' Association**



As the head of the Retail team at the British Bankers' Association, Eric's brief covers a broad portfolio of issues, including forthcoming revisions to the Consumer Credit Act, PPI, proposed changes to insolvency and debt management legislation, pensions and savings, and the Banking Code. In a wider context, Eric's team also holds responsibility for proposed European interventions, including the retail banking review, Single European Payments Area, the Consumer Credit Directive, which has been the subject of much attention and debate in

Brussels recently and emerging EU thinking around a single home loans market.

Eric has over twenty years experience as a career banker in retail banking with NatWest and latterly the Royal Bank of Scotland Group. During this time, the roles he has undertaken have been both operational and strategic, including successful spells as a branch and business manager. In more recent years, he has overseen a portfolio of policy-driven projects in PR and communications, new and emergent markets, legal and regulatory issues and crisis management.

Equinox: How according to you, is the state of UK retail banking today, how do you feel retail banking has changed in the last three years?

Eric: It's a very competitive market, a very acquisitive market and it is presently under intense regulatory scrutiny. This scrutiny has increased over the last 2-3 years and the industry is going to face continued regulatory change, which means mandatory change to systems, processes and businesses over the course of the next 3-5 years.

There are three core areas of retail banking: taking deposits, lending money, and money transmission. In terms of credit we will see far more trend growth rather than the accelerated growth that we have seen in the past. There will be a leveling of impairment and a stabilizing of the market over the course of next couple of years. The economic conditions affecting the credit market will improve but the market actually will remain more stable in terms of credit growth and impairment.

A market study is being undertaken by the Office of Fair Trading reviewing the way the market operates. It will be wrong for me to try to presuppose the outcome of that market study but there's absolutely no doubt that it could have significant influence on the current account market in the UK.

A trend towards increased savings has started to emerge over last 6-12 months, as deposit rates are starting to look more attractive to consumers. Equally, people are more actively considering longer term planning and this combination of facts seems to have encouraged the people to save more.

People are being more financially aware, taking more account of their financial circumstances and this can be seen in the trends across savings and credit that we see just now.

Equinox: Do you see a scenario wherein outsourcing, offshoring or IT outsourcing could become a sustainable strategy for retail banking to really marginalize these cost pressures of regulatory changes or micro-economic changes?

Eric: All of these strategies are well before the retail banks as they look to pare back their cost – income ratios, but there is also the ‘opportunity cost’ of regulatory change that forces banks to prioritize mandatory change over new product design.

Equinox: The UK mortgage market is ferociously competitive, with over 130 lenders vying for business. Lenders performed well for the last 2-3 years, how is the structure of the market changing and what will it look like in the long-run?

Eric: There’s probably others better placed than I to consider this point as mortgages and home loans are a particular component of retail financial services but we have seen a continued growth in outstandings and fewer approvals for larger amounts (which means fewer, larger mortgages are being approved). We are also seeing an increase in possessions; the exceptionally low possession figures seen in the last 12 – 18 months are picking up a little bit. As an ‘arm’s length’ overview, I would imagine these trends continuing.

Equinox: As the competitive structure of the UK mortgage market continues to change, will consolidation continue, will some investment banks exit the market as profitability declines in the sub-prime sector, and a number of giant or super players will dominate the mortgage market to a greater degree than at present?

Eric: Answering that question in context of retail banks rather than mortgage providers, there’s no doubt that it’s a very saturated market just now so the natural next step will be consolidation. I think that the competition authorities would say it is a rather too concentrated market, and as such I think that the consolidations in the marketplace would be global mergers and acquisitions or European mergers and acquisitions for larger players, rather than domestic mergers and acquisitions. There are a number of examples of overseas acquisitions and international partnerships.

Equinox: In a drive to lower costs, many industries are increasingly turning to outsourcing. What are your thoughts on retail banking turning to outsourcing for its long term strategic process?

Eric: It is an established option if you are looking to control your expenditure and your cost income ratio and it’s an opportunity for some. I think it is a competitive point as well - the competition manifests itself in the economies it brings that can be passed on to customers.

Equinox: What role can BBA play in bridging Retail Banks and solutions providers like Equinox? Do you plan to create a team which can develop standards/benchmarks around offshoring?

Eric: We would potentially get involved if there was a demonstrable need but I don't know if necessarily those considering that as strategic cost line would look to the BBA as natural partners. At the moment it remains very much in the commercial environment.