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Viewpoint

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Why do banks have no fear of competition?

The banking sector is often subject to poorly substantiated attacks on its inability to innovate and lack of openness to competition. It is supposed to be fearful of change, fretful over new entrants and hopeless with new technology. In a world where orthodox opinion wins out over logical examination of the facts, some professional Twitter users have stated that this spells out the end for banks.

Objectively, how do things stand? Specific criteria are used by economists to evaluate how much competition there is in a given sector. Developed by Michael Porter, a professor at the Harvard Business School, the six forces competitive model (intrasectoral competition, the threat of new entrants, threat of substitute products and services, bargaining power of clients, bargaining power of suppliers, restrictions imposed by regulation) is used to assess an industry's competitive structure. Faced with the reality of the French banking industry, Porter's six forces highlight the various competitive trends in the sector.

Within the French banking sector itself, even between its six major players, competition not only exists, but it is very tough. The Herfindahl index, which measures sector concentration, is below the European average. 378 banks in France form a regional network that is unique in Europe, with bank branch density (57 branches per 100,000 French residents, versus 44 in Germany and 18 in the United Kingdom) offering truly local service. Another clear sign: French banks offer some of the lowest interest rates in the eurozone (1.91% in France for businesses versus 2.60% in the eurozone; the average interest rate on mortgages stood at 1.81% in April 2016 versus 2.03% one year earlier). The low loans rates reveals the fierce competition in the industry.

In addition to the competition between banking networks, an international battle rages, even for our “national champions”: only one French bank is included in the list of Top 10 global banks by size, which is dominated by Chinese banks. More than ever, corporate and investment banking has become the undisputed territory of US banks.

To this highly strained environment, made worse by unprecedented regulatory pressure, new digital technologies and their impatient operators are arriving. Yes, it is a revolution that shakes up traditional models and leads to profound, sometimes uncomfortable but often promising challenges.

First of all, however, it brings positive energy, new services to offer, activities to invent, businesses to prepare and employees to train (as part of the responsibility pact, banks are establishing a digital skill base training for all employees). The arrival of new entrants is not so much a threat as it is a stimulus. The French universal banking model has already changed many times to adapt to the changing needs and practices of its clients.

The mass arrival of fintechs in many banking businesses aggressively brings Porters' criterion of "substitute services". Attempts at disintermediation pose a challenge to banking institutions, but these institutions are also changing. First, by taking advantage of new technological possibilities to differentiate themselves and better control costs. Second, by taking a keen interest in fintechs, which bring real added value to clients. Bank 2.0 is already a reality, as shown by the increased use of digital channels.

Banking is not an old-fashioned sector that is content to rest on its laurels. Its history stretches back too far for it not to have learnt to challenge itself by overcoming crises.