REAL BANKS FOR REAL PEOPLE
A Roadmap for Managing a Retail-Only Bank
By Stefan Kaminsky, Updated by Tom Blass
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Preface

By Michael Lafferty

Stefan W Kaminsky, who passed away in 2002 at the age of 75, was a truly remarkable retail banker. He was the partner with unlimited liability from 1963 to 1975 – and later chairman of the supervisory board from 1975 to 1980 – of the Düsseldorf-based Kundenkreditbank KGaA (KKB as this limited partnership company with shares established by his father in 1951 was usually called). At the time it was the world’s only commercial bank that focused entirely on serving consumers. Its clients were typically working class or lower income, many from immigrant communities.

Kaminsky was and remains a unique figure in retail banking worldwide. He despised the sales-driven culture that has done so much damage to retail banking over the past quarter century, and argued that the only product that a bank should provide is a long-term, lifetime relationship.

Stefan Kaminsky had sold KKB to Citibank and retired by the time I got to know him in 1988. With long grey hair tied up in a ponytail and an open-necked shirt and silk cravat, he dressed like no other banker I have ever met. He loved people and got great satisfaction from sharing his humanist ideas with them. He had a passionate belief in lifelong learning and was the first banker I heard say that retail banking should be a profession.

Stefan Kaminsky is today a global icon for retail banking. His ideas and philosophies are not bound by time – and strangely seem particularly relevant today. Kaminsky would not have been surprised by all the mis-selling scandals that have so damaged the reputation of retail banks in recent years. He predicted them.

On the other hand, he would be a great proponent of the standalone retail bank concept currently being considered by the UK’s Independent Commission on Banking. That said, he would also be advocating what might be called a retail banking counter-revolution – where banks would abandon the sales-driven culture and commit themselves to doing only what is best for the customer.

Stefan Kaminsky committed his retail banking ideas to a management report called Beyond
Retail Banking – How to Keep Your Customers Happy and Loyal – Forever which Lafferty Group published to global acclaim in 1989. Sales were far beyond our expectations – so much so that we felt obliged to offer additional royalties to Mr Kaminsky. Typical of the man, he donated the money to charity.

We decided to update and modernise Kaminsky’s report because it is so relevant to today’s debate about the future of banking, and retail banking in particular. We hope it will inspire a new generation of retail bankers around the world to embrace the consumer banking business and always do what is right for the customer. We will also be sending a copy to banking regulators worldwide – in the hope that they will become as excited about retail banking as they are about the corporate and investment banking business.
Real Banks for Real People

Soft Banking – Kaminsky’s Philosophy

By Stefan Kaminsky

Reproduced below is a speech titled ‘Soft Banking’ which Stefan Kaminsky gave at Lafferty Group’s International Retail Banking Conference in London on 31 October 1988. It provides an excellent exposition of his philosophy.

Part One: Banking— an abused term

Most bankers look surprised if ever asked to explain what they understand the term retail banking to mean. They will tell you that it means doing bank business with individuals, and some might further add that they mean individuals from the lower and middle stratum, contrasting it with private banking insofar as the latter is used to denote the provision of banking services for affluent customers.

When asked to be more specific about their about their banking activities, bankers enumerate instruments such as saving accounts, payment facilities, loans, mortgages, current accounts, cheque accounts, cash supply, currency exchange, insurance services, and security depots etc. In sum, they give the impression that the sum total of the soul of banking lies in the financial products that they provide.

But times have changed. Not a single one of these products has remained exclusively in the hands of banks. All are now available to everybody from post offices, insurance companies, brokers and intermediaries of all kinds, building societies, retail outlets and supermarkets, credit unions, Christmas saving clubs and many other institutions.

Now we have to ask our question again: what then is the activity that differentiates the banks from the rest of the crowd? What makes them unique in the eyes of consumers? What do they offer that nobody else can? Only a clear answer to this question would give real meaning to the term retail banking.
Maybe we should simply ask ourselves: do we think the financial power of banks to finance huge investments makes them unique because nobody else has this strength? We are right as far as commercial or international banking is concerned. But this ‘muscle’ is irrelevant to the retail customer.

If sheer power is not the decisive element, it could be argued that the differentiator lies in the possession of a large network of branch offices. But in this regard, the banks will never be able to beat the post offices or even the distribution chains of some retailers. Furthermore, there are retail banks that function well without branch offices, providing their services via mailings, telephone calls or field representatives. Credit cards empower consumers to use one or more financial services almost anywhere in the world at any time of day or night. Thus, having a physical presence cannot be considered to be a defining characteristic of retail banking.

What else can help us give a clear meaning to retail banking? In what ways does it differ from the increasingly ubiquitous term ‘financial services,’ as used by so many non-bank competitors? Unless we locate a unique characteristic that sets it apart, ‘retail banking’ has no real meaning for our customers, for politicians, for legislators or consumer groups.

Yes, it means doing business with individuals. That is clear. But it does not define a kind of business that is specific to banks. Even within closed banking circles it is used to refer only to a portmanteau of departments and products. For those outside that charmed circle, it is even less well defined.

Are we not being unduly self-righteous, believing our retail products to be better, merely because we call ourselves banks? Do we still think banks possesses a monopoly on ‘financial services?’ Does the retail trade not possess the advantage of acquiring more customer contacts in a day than do banks in a month? How likely is it that we will be able to offer car loans bearing interest rates lower than our rate on deposits?

It is time to wake up. The retail business is a battleground and our co-pugilists are numerous and many-faced. Status as banks does not afford us any great advantage. We are heavily regulated. We cannot rely on a primary profitable business (such as merchandising or insurance) that would allow us to offer financial services at discount prices. In the imagination of the public at large we are regarded as centres of economical power and political influence (which sometimes suits us).

But it does not help us in our capacity as retail bankers. It may even damage our standing in the eyes of consumers who feel that we are less concerned with their daily issues than ‘the big picture’ or our international ambitions. And they are bitterly disappointed to discover that, for all our political and economic standing, we fail to offer any greater benefits than those presented by our competitors.

In order to differentiate ourselves, we must provide a new concept of customer-focused activity that our non-banking competitors are unable to emulate – and thus renders our services unique.
Part Two: The new idea of Retail Banking

What concept, what idea can do this? What could banks do that nobody else is able or willing to do?

Seeing with the eyes of the consumer

Let us approach the question from another angle: What kind of service might consumers perceive as one that they could only feasibly obtain from a bank? By rephrasing the question we come closer to answering it: Banks must learn to see themselves through the eyes of the customer. This is a gargantuan task, and one which will take an entire generation of bankers to achieve.

Retail banking is a different world

Until now, all banks make the tacit presumption that:

a) Customers are aware of their own financial problems

b) They can break those problems down in such a way that they neatly coincide with the product solutions typically offered by banks

c) Customers believe banks to be both ready and able to solve their problems.

This attitude is arrogant, stupid and an obstacle to any genuine progress – and one which reveals the stark difference between retail and commercial banking. Commercial customers know their problems, look intelligently for appropriate bank products and choose the right partner. Unfortunately, in making the transition to Retail Banking, most bankers fail to recognize that they are entering a new terrain.

Unlike their commercial counterparts, users of consumer banks have no book keeping, no balance sheets, no controllers, no advisors, no economic education, no market power and above all, they pursue very different goals. What they want from banks can only partially be defined in financial terms. Retail bankers must abandon all the above preconceptions. And the very act of doing so demands a major rethink of the role, purpose, and activities, of the retail bank.

See the problem of the customer

All retail customers have an income. Income is to them what turnover or cash are to enterprises. Unlike those two yardsticks, customers’ incomes flow more steadily and predictably. It enjoys certain protections – not least, the efforts that the individual makes to maintain it. All financial decisions are income-related; in effect, the individual possesses one single, financial challenge: What is the optimal use of my income?

Here lies the defining characteristic of Retail Banking. It is in the customers’ desire for income optimisation that there lies a unique opportunity for banks to differentiate their retail business.

Banks deciding to adopt this approach will see a wholesale change in their corporate culture, goals, procedures, staff and value systems. And at this juncture, we must explore the significance of two of the most important of these changes.
Banking becomes an ongoing, lifelong process.

As we've noted, the retail banking customer regards him or herself as possessing a single financial challenge or question that demands to be answered. What is the optimal use of my income? But during a lifetime, it will be asked repeatedly: and the answer will change in step with age, marital status, family size and any number of personal factors. Thus, the optimum must be periodically redefined, and the instruments of its realisation readjusted. Retail Banking is essentially a long term relationship.

Step up from products to integration

This spells the death of impersonal, sales-driven marketing, because sales people are intrinsically concerned only with the short term sell – and not the entirety of a consumer's long term requirements. Furthermore, it is the end of banking 'products' as currently conceived. The only real asset in Retail Banking is the Customer Relationship - products no longer possess value in themselves. They are nothing but instruments subordinated to a higher goal, i.e. that of the optimisation of income use, determined by the value system of an individual. We could call this our mega-product.

Change of paradigm

This description of the basic idea of Retail Banking is no more than an initial orientation, a rough outline. But it will have become clear that Retail Banking is neither another refinement of orthodox banking methods, nor a linear projection of our past experiences in other banking activities. The key to success will be a through reassessment of the voluminous set of unconscious or half-forgotten convictions - rules, values, taboos, goals, fears and hopes - that have influenced any banking business in the past and will go on to dominate Commercial Banking in the future.

Such a mindset is today frequently called a paradigm. Retail Banking will need its own paradigm. Nobody will ever grasp its essence who is not willing to reconsider much of what was previously regarded as certain. Retail Banking is a conscious step away from the past. If the banks are genuine in their aspiration to win out over competitors in the field of Financial Services, they must be bold. They must step up and away from their fixation on selling 'many products' to a real understanding of the value of a genuine relationship with each of their customers. And they must down play the importance of offering ad-hoc initiatives and instead encourage 'life long confidence.'
**Soft banking**

I do not want to call this process a revolution. Only those things that already exist can revolve. It represents the evolution of something new. And this evolution is guided by and based on the new paradigm of Retail Banking, for which I have chosen the term ‘Soft Banking.’ You will understand this unexpected new concept more easily if you look at its key characteristics:

- Soft Banking does not ‘sell products but offers the ‘solution of problems.’
- Soft Banking represents a transition from ‘market share’ to ‘market roots.’
- Soft Banking is not about looking after the ‘customer’s funds’ but after his ‘income.’
- Soft Banking integrates ‘tangible products’ with intangible human ‘expertise.’
- Soft Banking looks at a customer’s ‘balance sheet’ instead of just keeping his ‘accounts.’
- Soft Banking is not meant to ‘deliver many products’ but to ‘maintain one relationship.’
- Soft Banking considers the ‘customer relationship’ as its only real asset. All other traditional assets or balance sheet items are only emanations of this.
- Soft Banking is time-orientated. Its basic time unit is the life cycle of the customer.
- Soft Banking has only one goal: Customer loyalty.
- Soft Banking has one motto: Souls, not Sales.
Real Banks for Real People was originally published in 1989 under the title Beyond Retail Banking. It describes a wholly new paradigm of retail banking – an approach that its author, Stefan Kaminsky, described as integrated consumer banking (IC banking).

This model was intended as a totally new way of serving the needs of consumers: an approach that was neither premised on – nor measured by – volume of sales, but rather on the ability of a bank to provide solutions to its customers through the span of life changes: employment, unemployment, marriage, divorce, child-rearing and retirement. Its emphasis is on establishing and maintaining long-term relationships between customers and branch staff – these, argues Kaminsky, are the source of value in retail banking.

Real Banks for Real People champions a number of departures from the orthodoxies of modern banking. One of the most significant is the notion that in place of traditional savings and loans, customers should be provided with integrated instruments and integrated pricing, supported by integrated information.

Another, arguably even more radical tenet of the book is that retail banks (or integrated consumer banks) should be stand-alone, not mere components of larger financial services groups that also undertake investment banking and business banking services. Retail customers deserve banks managed purely for the purpose of serving them.

This is very much more than home-spun localism. In fact the report argues that “IC banking is more complex than any other kind of banking. Whereas commercial customers are well educated and act within a limited set of rational goals, the retail customer wants help on a much broader range of problems that are frequently deeply influenced by emotion.” True customer service is a demanding challenge – and one that requires the skill of the most consummate and highly trained retail bankers.
Kaminsky sums up his vision thus:

“IC banking is run by people, not by abstract rules. It is a business based on appreciation, not on apprehension. Its structure is not hierarchical but determined by human interaction. It is like a tree. The visible part in the sun is your staff and your outlets. Then there is a solid trunk, caring for the visible part and linking it with the hidden part. The hidden parts are the roots, giving supporting strength through a wide base. No one part can live without the other. The management’s place, formerly defined as being on the top, is now in the centre between the visible and the hidden part.”
Key Issues in Real Banks for Real People

The philosophy of IC banking

- IC banking is a quantum leap in the concept, design and management of a bank that does business with private customers. It is not just a refinement of the traditional ways of banks – and it is solely intended for individuals, not for businesses of any size.

- Bankers should not presume that consumers typically possess very little in the way of financial expertise and education. They should also recognise that what customers require from banks can only be defined in financial terms. Nor are all their customers’ goals alike.

- IC banking is more complex than any other kind of banking. Whereas commercial customers are well educated and act within a limited set of rational goals, the retail customer wants help on a much broader range of problems, which are frequently deeply influenced by emotion. Managing an IC bank entails the use of unfamiliar methods, such as information processing, social responsibility, customer education, self-organisation and even gossip.

- IC banking is a permanent task for individual human beings on all levels. It challenges the will and the brain as well as emotions, compassion, instinct, vision, judgment and self-esteem.

Customer relations

- Consumers typically see themselves as possessing a single financial challenge throughout their lifetimes: the optimal use of income, which changes in step with life events. Thus, their needs must be reviewed periodically and the instruments used to attain this optimum readjusted over the duration of a lifetime.

- IC banking is a commitment to steady growth and it flourishes in a “modest, patient and peaceful company culture. It is based on lasting symbiotic relations between your staff and the consumers.”

- IC banking frequently enables the payment of higher interest rates for smaller deposits than would be offered on equal terms for corporate deposits.

- IC banking considers the customer relationship as its only real asset. All other traditional assets or balance-sheet items are nothing but manifestations of this relationship. IC banking is time-oriented. Its basic time unit is not a year, but the lifecycle of the customer.

- IC banking has but one supreme goal: customer loyalty. A loyal customer base means low acquisition cost, low risk exposure, low administration expenditure, planned growth of revenues, less vulnerability from competition, greater freedom in fixing prices, and profit.

Customer base

- The IC bank branch is a place in which to shelter human relationships based on confidence and mutual respect. Users of such a bank are reassured by its refusal to behave like ‘competitors’, e.g. seeking high-profile positions in international relations, politics and media exposure.
Customers of IC banks are not attracted by polished marble and grandiose lobbies – all of which connote bureaucracy and regulation. Rather, an IC bank should be small, modest and like a home. This is not figurative: an essential accoutrement to every bank, Kaminsky says, is a well-equipped kitchen.

IC bank as employer

IC banks should employ people who are deeply committed to service, delivery and who “find satisfaction and self-esteem without public acclaim and the thrills of sheer size.” Ideal IC banking employees achieve satisfaction through lasting personal contact with customers, and through the help and advice that they can give.

• Back-office work should never be done in front of the customer. No employee, including the branch manager, should be allowed to sit in the background as long as a customer is waiting to be greeted. Customers should always be made to feel that everybody in the branch is there to look after them.

• There should be little or no specialisation among the staff of the branch. Each contact employee (including the cashier) should be trained to offer each and any instrument the bank has available. The branch manager will undertake exactly the same work as any other contact person, and the manager’s desk “will not be found in a separate room but in the middle of the other desks.”

• The group dynamics within any given branch are extremely important. The number of contact people (i.e., customer-facing staff) should be limited to five or six and should consist of the right mixture of sexes and ages, novices and experienced staff.

• Customer-facing staff should remain in one branch for as long as possible because it is their personal relationships with customers that are of value to the bank. Premiums should be paid for continuity, and staff should not be ‘shuffled’ between branches.

Branch location and layout

• Choice of a branch site should be governed both by intuitive assessment of local conditions (such as the kinds of retailer outlets in certain streets or districts), and by numeric analysis of objective facts. One approach is to explore areas with a high concentration of factories, clerical jobs and other working places. Others will favour proximity to shopping centres, or districts where other providers of confidential advice – doctors and lawyers – have their practices.

• The appearance of branch offices should also be the culmination of the application of intuition and other forms of analysis. It will almost certainly possess an interesting window display and demonstrate its embeddedness within the local community – e.g., through the display of posters advertising local events, fairs, sporting events and so on. With regard to interiors, all architectural elements must be subordinated to the requirement that contact people (staff) should remain the dominant visual element.
Integrated instruments and integrated pricing

- Most average customers will use loan instruments, deposit instruments and payment instruments either successively or simultaneously. In the IC bank, all payments the customer makes must be handled through a single account – the input-output account (IOA) – and all instruments the customer uses must be related to this account.

- IC banking is never subsidised with profits from wholesale banking, or by the business of high-net-worth customers. Nevertheless it is a highly profitable operation when managed appropriately. The reasons behind this paradox are simple, albeit manifold. IC banking customers pay their bank good prices for something they cannot find elsewhere: an individual service based on confidence and continuity.

Non-customer-facing staff (the hidden parts of the bank)

- An IC bank is composed of two different but complementary worlds: the hidden and visible parts of the bank. Continuous effort is necessary to manoeuvre them into useful co-operation. They depend entirely on each other, and the tension between both parts must be cultivated as a creative, challenging force. This is probably the paramount job of the management of an IC bank.

- The hierarchical role of top management is activated in emergency situations only. It is not at the top of a pyramid, but in the centre of a process. Managers monitor, harmonise and promote the exchange of information between the two parts, ensuring maximum synergy by exploiting their different, but complementary, forces. Top management is no longer on top of a pyramid; it is in the centre of the process.

Relations with the outside world

- The most ardent opponents of IC banking are likely to be other banks, who find the concept new and threatening. Allies may be found among academics, elderly statesmen in the industry or within other banks with similar ideas. It may be useful to create a separate trade association for IC banks.

- Lack of familiarity with IC banking may mean that politicians will yield to pressure from established banks to hinder the development of IC banking. However, an IC bank possesses a powerful weapon against those pressures in that its customers are the electorate, and the bank’s success depends on the wellbeing of potential voters.

- Relations with unions should be positive – indeed, unions should welcome a model of banking in which key values include the autonomy of branch staff, service policy based on earning power and the concept of trusting, mutual co-operation between customer and counsellor.

- Public relations must be complemented by consumer-related publications, facts and events with an accent on educational institutions. The money and time invested in this broad and far-reaching activity will pay off slowly. Thoroughly preparing the public’s perception of the concept is of fundamental importance for final success. These funds may also pave the way for forthcoming IC bank competitors, but this is the fate of all pioneers.
The limits of IC banking

- Not all potential customers will be attracted by the concept of IC banking. Some will be unwilling to share the requisite information about their finances. Others – bargain-hunters – will always look for the cheapest product and will be happy to leave their bank if they see a better price elsewhere. Sales-driven banks are keen to win such customers and are less concerned whether they maintain a long-term relationship with their customers.

- IC banking can flourish in cities and urban districts because it is maintained by frequent customer visits. However, thinly populated rural regions do not support an IC branch. A mobile field force or representatives may help to serve parts of the country but they will never be able to maintain lasting relationships.

Epilogue

The very basis of banking is and has always been the lasting exchange of funds with customers. If adapted to the basic need of consumers, the concept of IC banking emerges. Integrated instruments with integrated prices are bundled with the help of integrated information and reach the customer through an integrated delivery system called the branch office.

In all, this book gives an insight into why retailers, insurers, brokers, card organisations and other non-banks have been so successful in taking customers away from traditional financial institutions. It will explain how to counter-attack and how to create a stable customer base with limited exposure to competition. It is based on knowledge that has been accumulated worldwide, and it deals with modern, mobile and sophisticated customers and the way they want to be served by modern and highly educated staff.

Be prepared to see many comfortable truths confronted and many unfamiliar challenges emerging.

The Portrait of an IC Bank

“What banks have not done, and must do, to see off the challenge of the ‘product retailers’, is to accept that they are an advisory business and not retailers of products as such.... Their success as financial advisers will depend on their making a long-term commitment to the individual.”

Russell Taylor

IC banking is run by people, not by abstract rules. It is a business based on appreciation, not on apprehension. Its structure is not hierarchical but determined by human interaction. It is like a tree. The visible part in the sun is your staff and your outlets. Then there is a solid trunk, caring for the visible part and linking it with the hidden part. The hidden parts are the roots, giving supporting strength through a wide base. No one part can live without the other. The management’s place, formerly defined as being on the top, is now in the centre between the visible and the hidden part.

1Retail Banker International, 31 October 1998, page 7 (see ref 13).
The Portrait of an Integrated Consumer Bank

The Branches

The Supervisors

Management of the Bank

The Central Supporting Units