



> Vallstein: FinTech & Bank Relationship Management

Vallstein Clearly Better Banking

Vallstein founder and CEO Hugo van Wijk talks about his company's flagship product:

WHAT IS WALLET SIZING® ABOUT?

It provides transparency on the relationships between a corporate banking client and its banks, and vice versa. This reduces costs and risk. This benefit can be shared between client and bank. Many CFO's still shop around between banks, comparing quotes or pricings per product, e.g. when negotiating credit

facilities, cash management, or treasury products. That usually results in fragmentation and inefficiency. Comparing individual pricings per product also doesn't say much, contrary to what sometimes is still believed. What matters is total size of the relationship in terms of annual revenues generated for the bank, and the associated profitability. Once you understand that dimension, you'll be able to make an informed decision on allocating business to individual banks with a fair Share of Wallet, and

fair return. On the other side, many banks have too many clients. In many cases in commercial banking you see situations where 20-30% of the clients provide 70-80% of revenues. That is a costly imbalance in the business, a waste of human resources, and a suboptimal allocation of regulatory capital.

WHY IS VALLSTEIN UNIQUE?

We were founded seventeen years ago, bringing together ex-bankers and IT-specialists. We



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dedicated ourselves to one thing: optimisation of bank relationships through WalletSizing methodology and technology. We look broader than just treasury or corporate finance because we provide a 360° view on all banking products and services that a client procures from its banks. Secondly, we don't just look at product pricings or fees paid, but provide a deeper analysis on the annual banking revenues generated from such relationship and the associated return for the bank, taking into account the Basel regulatory capital requirements. And thirdly, we use technology, not spreadsheets. This allows for more speed in our work, more sophistication, powerful data mining, cross-referencing and integrating company-external data, and more accuracy. This combination sets us apart from treasury consulting firms or treasury management systems. In fact, we're complementary to them as our partnerships with e.g. Accenture, KPMG, Bellin, and others illustrate. Through these partnerships we can also serve clients anywhere.

PLEASE TELL US MORE ABOUT THE TECHNOLOGY.

Already in 2000 we developed our own systems at our technology centre in Portugal. We've just moved to our 9th generation WalletSizing system in 2017. This technology has allowed us to perform thousands of detailed analyses of Wallets over the years and to develop a valuable benchmarking database that feeds into the WalletSizing system. You need scalable, robust but flexible technology that can accommodate detailed country and product data, we currently have data from over hundred countries worldwide, but that is also able to convert such data into information that is meaningful in an analytical context and provides actionable business intelligence that creates value added for a client. You need to be able to switch between “zoom in” for relevant fine-tuning and “zoom out” to a helicopter view to make sure you don't get lost in meaningless detail, but also achieve holistic insights and correct conclusions. You need technology to do that well, and to do that in a cost-efficient way. You can't get there with just spreadsheets. The market is gradually acknowledging this too, hence all the focus on fin-tech these days.

SO WHAT'S YOUR VIEW ON FIN-TECH?

Fin-tech is a buzzword for a lot things. It comprises everything from PSP's, FX platforms, online lending, robo-advisory and trading, digital banking, business intelligence, and more. Two key questions in our view are: what does a solution provide in terms of value added for the end client and how does the earnings model work? Keeping that in mind I think one should look for fin-tech innovations that reduce total cost and/or increase financial inclusion.

Incumbent airlines did not invent low-cost carriers. Some existing carriers adapted to the new competition well, others disappeared, and importantly, this development tapped



Founder and CEO: Hugo van Wijk

an enormous new demand. The new entrants focus on efficiency, cost cutting, and cutting out as many individual suppliers in the chain as possible. This creates, as far as possible, an integrated provider, and it enables the client to do as much as possible himself. So a combination of cost cutting and technology, which in turn also helps tapping new demand.

In that respect, some have argued banks will disappear altogether with the rise of new fin-tech solutions that will cherry pick individual banking products and disrupt the business model of traditional banks. With some exaggeration their reasoning goes something like: “banks have had their chance, burnt it, and nobody trusts them any longer. New technologies such as block chains will revolutionise traditional products such as payments and lending, everything will move on to the cloud and online, and therefore nobody will need physical banks.”

But the reality is more nuanced, we believe. Bankers will come and go. Banks will come and go. But unless we go back to barter trade, banking will stay with its core functions of storing, converting, and transferring value, in terms of amounts, location, tenor, and risk.

One can argue that fin-tech in itself is not new: as long as there has been money around, tools have been developed to manage it. The first fin-

tech in debt collection was probably a bat. The fundamental value-added that banking provides to clients has been the same throughout the centuries: we call it FORM – Funding Intermediation, Operational (transfers), Risk Management.

But it is evident that the current scale and possibilities provided by computer technology in fin-tech are shaking up the banking industry. By some estimates new fin-tech providers may capture 20% of the industry (which still is massive). Others say that banks merely outsource innovation, e.g. in payments, as this is ultimately a volume game in a homogeneous product.

Overall, just like with supermarkets, when selling homogeneous products, volume and cross-sell matter, and that's why in the end the client is still best served by a one-stop shop. So big payment service providers that come out as winners in the volume game may be bought by winning banks or may develop into banks themselves offering other products such as loans as well.

But either way, compliance with regulation will apply. Because with banking comes supervision, and with rules come the calculations, the value added of transparency and the need to understand the black box.

For Vallstein, the key question both at the beginning and the end is what provides the most value for the client. Our view is that most banking is essentially homogeneous in terms of products. So cost-competitiveness is a key success factor. That indeed favours a supermarket model over single delis for each individual banking product. And that in turn underpins the value of WalletSizing as this helps to minimise those banking costs, and motivates banks to become efficient low-cost providers through optimising resource allocation against the identified target market clients. Some banks clearly get this right. Others will not.

SO WALLETSIZING MAY ALSO HELP BANKS?

Certainly so. And, in our view, it certainly helps banking in general. Remember, the Basel framework rests on three pillars: minimum capital requirements, supervision, and market discipline. WalletSizing helps market discipline.

One can convincingly argue that the banking sector, expressed as a percentage of GDP has grown too big. Paul Krugman once said that when banking was safe and boring, banking accounted for about 4% of GDP.

We did extensive research a few years ago and found that banking sector, expressed as % of world GDP, had risen to well in excess of 8%. Both the BIS and IMF also produced at that time reports questioning the link between size of the banking sector and economic growth. You'll remember that Adair Turner spoke about banks being involved in “socially useless activity”. Andrew Haldane, of the Bank of England, researched the length of financial contract design and found that through securitisation and almost endless repackaging and redistribution of debt, the final holder of a financial claim at the end of the chain would have to read about a billion pages of documentation to find out who had taken the loan against the physical asset in the real economy that was supposed to repaid.

That was only a few years ago. Much has been done in making banks safer with the introduction of Basel 3. But, in our view, the question is not just how much regulatory capital you demand, but also what you actually use it for? Banking is financial services and supposed to be of service to the real economy. Now, in WalletSizing, we look at the total amount of banking revenues a given client generates for its banks per annum. In that context we analyse the Vallstein Benchmark, looking at size of Wallet compared to company size and profile. If you then take an aggregated view, and consider both retail and commercial/corporate banking, you quickly find that Paul Krugman was right. And the powerful thing is: once you have established, as client, your own Vallstein Benchmark, you have the perfect indicator to steer your bank negotiations, reduce your Wallet, and enforce further market discipline on the banking sector. ❖