Ryanair: A Role Model for Europe’s Banks

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The industry sorely needs a low-margin, high-volume business model relentlessly focused on long-term value creation.

Ten years after the global financial crisis and multi-billion euro bank bailouts by taxpayers, the financial service industry is still trying to justify its existence.

The sad truth is that few, if any, of the large European banks have generated value for their customers or investors during the past decade. Large banks have not made major technological advances for retail or institutional customers. Indirect state subsidies in the form of low interest rates remain in place for the foreseeable future. Share prices of most banks in Europe have been barely impacted by the strong stock market performance over recent years.

The sole significant change in the industry of late has been a continuing wave of new regulations. In addition to subjecting banks and customers to onerous data requests and compliance challenges, these new rules have dimmed one of the industry’s few bright spots: the incursion of disruptive fintech start-ups. Increased regulatory burdens result in the large banks – with their deep pockets and political connections – being granted an artificial competitive edge over disruptive players.

Hence the outlook for banking services in Europe remains bleak from the consumer and investor perspective. Banks have no real incentive to do more than survive by remaining friendly with regulators as well as systemically relevant to society (too big to fail).

The parallels between banking and the airline industry in Europe are more numerous than highly paid bankers would have us believe. Up to the 1990s, for example, countries considered their national airlines as too economically important to permit consolidation, similar to the way large European banks are considered too big to fail. The desire to have a national carrier meant that governments subsidised airlines year after year, similar to banks today receiving virtually free short-term ECB funding.

On the back of regulation liberalisation, the European airline industry was revolutionised in the 1990s with the arrival of Ryanair, and later easyJet and others, providing a low-cost alternative to flag carriers. A new business model challenged the old order and led to massive cross-country consolidations. Why were the low-cost airlines so successful? Firstly, extreme focus on reducing costs (internally and externally) and passing the savings on to customers. Secondly, a constant fight for deregulation as well as more liberal and transparent rules. Thirdly, a disproportionate investment and concentration on flight safety. As a result, Ryanair is now the most valuable European airline with a market capitalisation of US$21 billion and US$1.4 billion in operating profits.

So what would a Ryanair-style bank look like?

The Ryanair-style banking model

Most European banks follow a strategy of high margin, low volume. Their private bankers target high-net-worth (HNW) and ultra high-net-worth (UHNW) individuals; their corporate finance professionals woo CEOs and finance ministers while virtually ignoring the remaining 99 percent of the customer base (similar to traditional airlines chasing corporate clients and wealthy individuals until Ryanair came along). Instead of competing on price, banks hope to compete on their quality of service, which is particularly difficult when it comes to a fully fungible commodity like money.

A Ryanair-style bank would compete on price and ensure that clients have full transparency on services and charges. These would be posted for all to see on the bank's website, along with interest rates on cash deposits, time deposits, mortgage rates, etc. Shares, funds, bonds or certificates could be purchased online, with transparency on commission as well as bid/offer spreads. The platform for all this exists but is vastly underutilised by large banks.

Just as Ryanair effectively dispensed with the check-in counter, the bank would operate with few or no physical branches. Customers who still want to interact face-to-face with an individual could summon a mobile banker (at a premium fee, of course).

Staff and tech

We also need to address the source of most banking costs: technology and staff.

Running the operations and IT departments are the most unglamorous jobs within a bank. They tend to go to less talented people who are encouraged to see their assignments solely as a stepping stone to roles in the "front office". Banks are thus littered with failed IT projects – usually outsourced and totally overpriced – and a multitude of technology platforms that do not easily interface with each other.

Contrast this with Ryanair, which paid less than US$20,000 for its first website where fliers could book their tickets directly. For our new bank, reducing costs in this area will be crucial. It should assign its best managers to the task. Negotiations with external vendors will need to be as brutal as Ryanair slashing landing rights at airports. Institutions will need the courage to contract with smaller, less well-known providers – just like Ryanair setting up at previously unknown regional airports.

This brings us to staff costs. Banks continue to chase graduates from the top universities around the world for their well-paid front office positions. They spend millions on recruitment, salaries and benefits, and expatriate compensation. Banks need to radically reduce such spending, above all in the front office.

Banks are likely to launch a two-fold objection: 1) they will no longer be capable of attracting the right talent; and 2) top performers will be poached by competitors. For the first point, automation has already substantially reduced manpower needs in the front office. Furthermore, the supply of well-qualified talent has increased tremendously mainly due to improvements in financial education in non-Western nations such as China and India, and headcount reductions of the past having created a reserve pool of professionals willing to return to the industry. What is missing is the political will to exploit this decreased demand and increased supply in the labour force by cutting staff costs.

Regarding talent retention, academic studies have repeatedly disproved the notion that high remuneration is positively correlated with staff retention. Beyond a certain point – frequently defined as an annual household income of US$50,000 – financial rewards are not the main reason workers remain with their employer. Instead, other aspects, such as work purpose, clear strategy, progress, work environment, become more relevant. Investment banking, for example, is an industry which combines extremely high remuneration with rapid staff turnover.

Relationships with regulators

Before the arrival of low-cost providers, airlines had a hand-in-glove relationship with regulators and quasi-governmental service providers. Given the high level of state subsidies, the incentive for airlines to challenge new regulations remained low. Ryanair’s CEO **Michael O’Leary** challenged this cosy arrangement publicly and vehemently.

European banks need to oppose today’s unceasing regulatory barrage in the same way. Instead of persisting in complacency, senior bank managers should seek direct and confrontational discussion with politicians and the public. This fight should not start after the law has already come into force. Rather, it should begin with a discussion about what type of banking the economy requires, and at what cost to the end client.

Let me conclude with the final aspect that drove Ryanair’s success – safety. The low-cost model of Ryanair has not resulted in increased risk to passengers. If anything, low-cost airlines are more safety-focused because leaders know that any glitch will be interpreted as the product of cost-cutting and severely punished by the market. Similarly, the most stable banking system we can aspire to is not one where trust is vested in burdensome regulation but one where banks pursue long-term value-added strategies based on low-cost, high volume, liberally regulated banking services for the broad population. Now that would be a Ryanair Bank for all.

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